Low cost strategy of multinational companies in the service sector strategy formulation and implementation

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Awarding institution:
King's College London

Title: Low cost strategy of multinational companies in the service sector
strategy formulation and implementation

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LOW COST STRATEGY OF MULTINATIONAL COMPANIES IN THE SERVICE SECTOR: STRATEGY FORMULATION AND IMPLEMENTATION

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Submitted in partial fulfilment of the requirement for the degree of:

Doctor of Philosophy (PhD) in Corporate Strategy

King's College London

April 2013

Abstract

One of the main aims of the dissertation is to utilize different theories in the field of business strategy, integrate them with recent literature, and propose a more detailed explanation on how multinational companies (MNCs) formulate and implement low cost strategy in emerging markets. The study was done in three major service industries: air transport, mobile-telecommunication and retail, in Albania and the FYR Macedonia market. The research project focused on qualitative research in six different companies, as the main research objective was to gain a deeper understanding of how, and why, companies implement cost cutting policies or low cost strategy in the service sector.

The extensive change of consumer behaviour towards low cost goods and services has increased the competition for customers, resulting in extensive price wars. This high pressure on prices could force companies to reconsider their strategies and business management techniques.

Therefore, we need a detailed analysis to see what the business consequences are for MNCs that follow cost policies and a low cost strategy in the service sector, especially in emerging markets such as in South East Europe. In order to see how such aspects increase the business performance of MNCs, this study will elaborate on External – Internal – Implementation factors to understand the business consequences better.
The researcher will see how the cost policies and low cost strategies increase the performance of MNCs in the service sector.

By evaluating the size of similar companies, similar market structures, that are in main service industries, the researcher will analyse the key success factor for implementing low cost strategy. Finally, managers can give us further insight into low cost policies by looking at the uniqueness of each variable factor from the external - internal - managerial perspective. This will create the basics to recognize the most applicable and practical method that they can use during the strategy implementation process.

Acknowledgements

I would like to express my sincere thanks to Prof. Pervez Ghauri, my dissertation supervisor, for his constructive guidance, valuable comments and continuous support during the work on the project and the writing of this dissertation. He not only served as my supervisor, but also encouraged and challenged me through this project. To his positive encouraging attitude and faith in me, I give my profound thankfulness. I am deeply grateful to Dr. Fatima Wang for her advice, comments and courage that have been very helpful in overcoming difficult problems during the research, especially at the last stage of my research.

I would also like to acknowledge the funding of the Albanian government and the Ministry of Education that made this research possible through the Fund of Excellence. I also want to thank: Prof. Omer Stringa, Prof. Shyqyri Llaci, Prof. Suzana Panariti and Prof. Sulo Haderi, and all my friends and colleagues at the Management Department at the Faculty of Economy, for supporting me during my academic career at the University of Tirana.

Likewise, I would like to express my heart felt thanks to my family and relatives, who have always been eager and passionate supporters of my academic and professional success; especially: Piro, Fiona, Albion, Fatos, Jeton, Bleta, Sarah, Zana, Nebie, Agnesa, Korab, Merita, Tomor, Ida, Krenare, Xake, Teuta, Bulza, Melos, Nebi, Klaudia, Vinjola, Agi, Auron and Roni. I also want to thank sincerely my close friends: Besnik, Erjon, Irgen, Andi, Oriela, Enxhi, and Gerti for the amazing time that we had during university years and for being true friends of mine.

On a more personal basis, I am grateful to my family who, despite all their sacrifices, have managed to support me emotionally and financially during my studies in the UK. To the continuous encouragement and infinite support of my father, the nurturing love and wise advice of my mother and the endless support and friendship of my brother and sister-in-law that helped me find and realise my potential, I am forever grateful.

Dedicated to my family

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Chapter 1.0 Introduction

1.1 Topic Overview

To date, far more research has been carried out in strategy formulation than into strategy implementation. Strategy researchers have paid less attention to this area because they have generally viewed strategy implementation as “a simple detail of the planning process” Porter (1996), rather than an area of investigation in its own right. However, based on research work from Dobni and Luffman (2003) the main difficulties for the managers lie in the implementation of strategy rather than its formulation. In latter studies, Kazmi (2008) has also said that strategy failure always happens during the implementation stage rather than the formulation stage, and there is a need for a new implementation model.

Strategic management literature has been influenced by many disciplines including psychology, economics, political science and military history (Mintzberg, Ahlstrand and Lampel, 1998). As a result, there are various diverse and conflicting views on how strategic decisions should be developed and implemented in organisation s. Dawson (1994), Chakravarthy & White (2001) and Dobni & Luffman (2003) state that most research studies on implementation investigate and evaluate this area of strategic management through the application of a singular theory or perspective. However, many of the previous studies on implementing strategic decisions have focused on the relationships between strategy and a single variable, such as strategy and structure (Chandler, 1962); strategy and culture (Johnson, 1992); strategy and communication (Guffey, 1992); strategy and people (Fulmer, 1990); strategy and incentives (Stonich, 1981); strategy and training (Huff and Reger, 1987); strategy implementation and managers (Nut 1987); strategy versus middle management (Guth and Macmillan 1986, Parnell, 2008); external environment and strategy (Mason, 2007, Goll, Johnson, Rasheed 2008); implementing strategic decision and top management team (Kauer, Waldeck, Prinzessin, Schaffer, 2007), and leadership and company performance (Amagoh, 2009).

Moreover, Okumus (1999) analysed the implementation process from an international hotel group perspective, basing it purely on a case-study approach, which raises many questions as to its application in different business industries. The main contribution of his study is that it produced a good idea about how companies should implement their strategy through using a holistic approach. The proposed framework was focused mainly on the external environment and the operational efficiencies by viewing all factors together in the strategy formulation and implementation processes.

However, in general terms, these studies provide insights into the role and importance of single administrative elements in the transformation process, while failing to provide a comprehensive picture of how these multiple variables interact with each other during the implementation process, and how these interactions influence the implementation process. In other words, there are not many implementation frameworks, which illustrate how key implementation variables interact with each other to make the implementation process possible. What is most important is that they fail to present the reality of the strategy implementation process to a new business environment, which has different rules and procedures in comparison with other markets. This is the case for Eastern European countries (South East), where there is a need for a new business model in the strategy implementation process, especially in the service sector, which is the main engine of the economy.

In particular, the results of research on the importance of low cost strategies have been mixed. Some have found that hybrid strategies are more effective (Gopalakrishna and Subramanian 2001) while others support the concentration on one specific strategy (Green, Lisboa, Yasin 1993, Thornhill and White 2007 and Peteraf and Reed, 2008). The main gap in the literature is that the value of a low cost strategy in emerging markets like Eastern Europe is ambiguous. The majority of low cost strategies are focused mainly on manufacturing companies, leaving plenty of gaps for further analysis in the service sector. Can such a strategy be successfully implemented in the service sector? In addition, researchers often fail to discuss new emerging markets as a group. In general, the research should address all these gaps in the literature by moving beyond the issues of a specific country and connecting, through an investigation of cost leadership, to strategies in emerging markets of South East Europe.

1.2 Literature Gap

The new dynamic changes in different markets have created a big gap in implementing a generic strategic model, in terms of case study and empirical testing (Parnell, 2006). However, if these challenges can be addressed through analysing the low cost strategy framework in emerging markets by using a case study approach, we can still add more value to the strategy formulation and implementation field. Furthermore, previous studies such as Chandler (1962), Johnson (1992), Guffey (1992), Mason (2007), Amagoh (2009) focused on the relationships between strategy and a single variable such as strategy and structure, strategy and culture, strategy and communication

In general terms, these studies provide insights into the role and importance of single administrative elements in the transformation process because they focus only on one factor that influences the strategy formulation and implementation process. However, they fail to provide a comprehensive picture of how these multiple variables interact with each other, during the implementation process, and how these interactions influence the low cost strategy in the Eastern European Market. Moreover, most of the research is based in Western countries and there is room for further research to be carried out in new emerging markets.

Researchers have paid more attention to strategy formulation than to strategy implementation, even though strategies mainly fail because of the implementation process. According to Kazmi (2008), in today's business environment managers face very complex tasks and they need to know what steps to follow, what the sequence of those steps is, why they are necessary for business and what are the critical factors for success. Therefore, strategy implementation needs a new framework that can act as a roadmap for future managers to better understand the whole process and achieve their objectives. Besides, there are not many implementation frameworks, which illustrate cost focused implementation variables. What is most important is that they fail to present the reality of the strategy implementation process to a new business environment, which has different rules and procedures in comparison with other markets. This is the case in the Eastern European countries, where there is a need for a new business model in cost-focused strategies. In addition, most of the research on strategy is done at senior level rather than at middle management level (Kim and Mauborgne, 2002), creating a big gap in the implementation phase. According to Chussil (2005) middle managers are in the best position as they control resources and know the strategic problems.

1.3 Research Focus

The starting point of the research is Porter's (1980) theories on generic strategies, and intend, by integrating them with recent literature, to propose a more detailed explanation of how multinational companies (MNCs) formulate and implement low cost strategy in emerging markets such as Eastern Europe. The issues come as a result of outlining major developments and frameworks in studies on the strategy implementation. The research will focus on the service industry because this sector is rapidly expanding, while the manufacturing sector is steadily decreasing. The economic development and employment rates are mainly focusing towards the growth of the service industry (Uppenberg and Strauss, 2010). There is a serious need for more research in strategy implementation, especially in the service industry because many companies are becoming less efficient with modest quality service (Stare and Bucar, 2007),

The researcher's project focuses on three industries: air transport, retail and mobile-telecommunication. The research focuses on these three sectors, as they are more stable markets, whereas the sectors of other services like finance, insurance and IT services are highly volatised due to the financial crises and so are difficult to predict.

1.4 Research Question

The extensive change of consumer behaviour towards low cost goods and services has increased the competition for customers, which has resulted in extensive price wars. According to Mason and Alamdari (2007), people need to communicate; travel and prices are the key drivers of demand for air transport and mobile communication. The rise of globalisation and freedom of goods and services within, and between, countries, are positive factors affecting demand not just for air transport, but also for the mobile and retail sectors. The fact that more customers have chosen price over service (e.g. frills, choice or flexibility) indicates that many MNCs should focus on low cost services. This high pressure on prices could force companies to reconsider their strategies to some degree of differentiations.

A detailed analysis is needed in order to see what the business consequences are for

MNCs that follow low cost strategy or cost policies in the service sector, especially in emerging markets such as South East Europe.

As Luo and Zhao (2004) suggested, companies, which implement cost strategy, tend to cut different expenses on: R&D, operations, innovation in different parts of the business and a new philosophy is implemented. In order to see how such factors increase the business performance of MNCs, this study should focus further on the following:

Main Research Question:

How do MNCs formulate and implement their low cost strategy in the service sector?

In order to answer this question the research will elaborate three sub-questions on the external factors, internal factors and implementation policies to better analyse the research objective.

Sub-question 1

- What are the key external and internal factors that influence the strategy formulation and implementation process?

Sub-question 2

- What kinds of policies are formulated and implemented for cutting costs in different departments?

Sub-question 3

- Does the low cost strategy improve the performance of companies in the service sector? How is it done; why is it done and where is it done within the firm's strategy?

Thus, in general, the researcher will see how the low cost strategy increases the performance of MNCs in the service sector. This is done by comparing all the factors above, to see whether there is any link between them, and to understand better how companies implement their strategy.

The research is concentrated in South East Europe because it is likely that all the factors above will have similar weight in similar markets and the market dynamics and structures are very comparable. In addition, during the past 20 years, South East Europe has undergone a remarkable economic transformation. The degree of development in terms of economic and democratic reforms, regional cooperation, and integration into the global economy was extraordinary, and is exceptional in the region's modern history (Sanfey, 2010). The reason that we introduced the comparative element in three industries in two similar markets such as Albania and Macedonia is to validate our proposed business model. It is, therefore, necessary to understand clearly how such strategy is formulated and implemented in the new emerging countries East Europe and draw general conclusions on a particular region.

1.5 Aims and Objectives of the Research

Many frameworks have been used listing the most important factors that influence the strategy, but not much has been said about the low cost strategy. So factors influencing the cost processes continue to be important, but further analysis is necessary in order to create a more simplified model for implementing such a strategy. Therefore, based on the question of the research, the aim and objective is:

To investigate and evaluate how MNCs formulate and implement their low cost strategy in the service sector.

The objectives of the research are to:

1. Provide a comprehensive picture on how multiple factors interact with each other during the strategy formulation and implementation process and how these interactions influence the low cost strategy in the service sector.

2. Evaluate how companies establish competitive advantage through low cost strategy in the service sector.

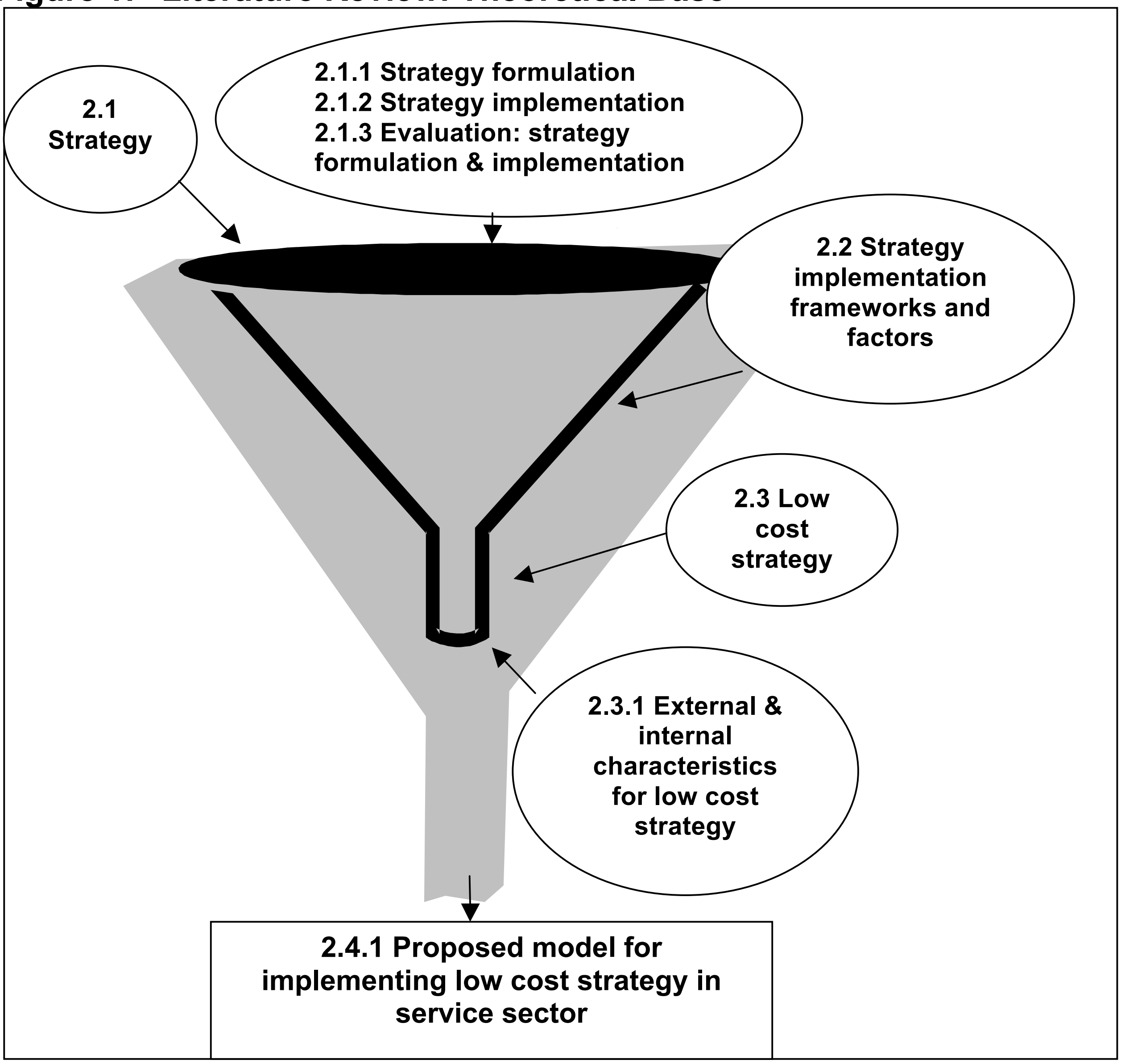
3. Analyse the role of managers in respect to cost control policies, as they are the key people who formulate and implement the low cost strategy. Develop a new low cost strategy business model.

By achieving all these objectives, this study will increase the understanding in the field of strategy and international management. By achieving these objectives, this research will provide a better understanding of external, internal and managerial practices that go into the formulation and implementation process on low cost strategy. Also, analysing the internal and external factors and seeing how management formulates and implements this strategy in service industries, enables different academics from the strategy field to see how the service multinational companies implement the low cost strategy. The pattern of the research outcome will suggest whether external, internal and management factors play an important role in the formulation and implementation process of low cost strategy. This will constitute the basics to identify the most valid and practical method for future managers to use when they implement strategic decisions in the service industry in order to make their company more efficient.

Chapter 2.0: Literature Review

This chapter reviews the previous conceptual and empirical research on the strategy field; in particular, it focuses on the literature of strategy formulation and implementation by analysing different implementation frameworks and models that influence low cost strategy. First, it is necessary to see the difference between strategy formulation and implementation in the literature, and then analyse the factors that influence the implementation process; which are the main external and internal characteristics for low cost strategy in the literature (please see fig. 1).

Figure 1: "Literature Review: Theoretical Base"



2.1 Strategy

One of the main academics that defined the strategy concept in the current business environment is Porter (1996) through his article *What is Strategy?* He suggested that strategy is about choosing to perform an activity that is different from competitors which has unique and valuable position in different activities. According to Porter (1996, p.64), "Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value."

In addition, Markides (2004) updated the definition of strategy by considering the importance of innovation and creating a general picture about strategy in today's business environment.

According to Markides (2004) a strategy is about:

- Deciding on what business should, and should not, do and develop explicit vision of where the organisation needs to head.
- Enhancing a positive environment within the organisation to utilize ideas from all stakeholders, create active thinking and institutionalise a culture of innovation.
- Understanding the company's strategic situation, the exact nature of the industry and competitive conditions it faces and how these conditions match up with its resources and capabilities.
- Innovating processes, ideas and culture within the organisation to gain a competitive advantage over competitors, while fighting for an improved market position.
- Continually analysing the strategic positioning to discover new opportunities and identifying whether the company is losing its market momentum.

Markides (2004) and Porter (1996) saw the strategy from different angles and they proposed that organisations must adopt unique strategic positions, to prevent being trapped by strategic indifference. Pretorius (2008) challenged Porter's generic model. He suggested that his model applies under the assumption that companies operate normally in profit within the competitive environment, but it does not show us how to respond in a difficult turnaround situation. In addition, changes in the global economy have transformed strategy from being a one-off, inimitable event, to a dynamic, fluid and continual process. Ghauri and Cateora (2006) also mention that managing controllable (4Ps) and uncontrollable elements is very difficult in business strategy. Still, when associated with the long-term direction of a company, scholars maintain that organisations should enhance strategic flexibility (Coombe & Greenley, 2004). In such a dynamic business environment, the best strategies are those achieving strategic fit between the internal and external elements of a company (Hunt & Derozier, 2004).

Whereas, Johnson *et al* (2005) take the holistic view that the environment encapsulates four layers, “the macro-environment”, “the industry sector”, “the competitors” and “the organisation”. While elaborating they suggest that all four layers contribute to the strategic success. Fostering an innovative environment is crucial. However, the strategy must fit the four layers of the organisational environment, identified by Johnson *et al* (2005), above.

As Cummings and Angwin (2004) note, companies must take a multi-faceted, multi-dimensional method to strategy in order to overcome different problems during the formulation and implementation processes. Therefore, companies must strategically innovate, without losing touch with their existing resources and capabilities. In a world dominated by uncertainty and paradigmatic shifts, strategic flexibility must be an important factor of strategy formulation and implementation process.

2.1.1 Strategy Formulation

Even though there is no clear-cut definition of strategy formulation and implementation, several authors attempt to distinguish between these two concepts based on the strategic objectives and action plan that is needed to achieve these stated objectives (Campbell, Datar, Kulp & Narayanan 2006).

Chandler (1962) defines strategy as planning and executing company growth. It consists of deciding the long-term objectives of an enterprise and the action and allocation of resources needed to achieve such goals. Chandler’s definition seeks to identify two separate components, formulation and implementation, and see how these two factors are linked.

On the same lines, other authors, such as Andrews (1971), made clear the difference between formulation and implementation by encompassing both elements, for example the goals & objectives; and means, for example courses of action & allocation of resources. However, Minzberg (1978, p.935) challenged Chandler (1962) by stating that, “the position taken here is that this definition is incomplete for the organisation and non-operational for the researcher”. By limiting strategy to an explicit plan, the researcher is forced to study strategy configuration as a perception experience, and reducing his conclusions to a normative generalization (Minzberg, 1978). The leadership should, therefore, formulate a strategy through a detailed procedure before making any specific choice, or create it gradually as it makes its decisions one by one (Minzberg, 1978). According to Minzberg (1978), the research on strategy should focus on tangible phenomena and strategy patterns. Later on, Snow and Hambrick (1980) continued the analysis between choosing strategic objectives, for instance strategy formulation, and detailing action plans to achieve those objectives, such as strategy implementation.

Mitzberg (1987) proposed the five Ps model for strategy formulation, which stated that the strategy should be seen as a plan, ploy, pattern, position and perspective. He clearly used multiple factors in order to help researchers realize how complex the strategy is and it draws us into some of the most essential issues around the collective perception and action of organisations.
Mason (2007) defined the strategy as a formulation process that needs to involve people, delegate them closer to the customers and use cross-functional teams, so the strategy becomes a “test-error” process, developing through the discovery of what works.

It is clear that there is a vast literature on strategy as a concept and there is a need to create a general framework to understand better what the key drivers of strategy are. Khalifa (2008) undertook a comprehensive review of the strategy formulation literature by creating the 4 Es model and explaining what drives business strategy. He concluded that: a) Exerting and leveraging organisational capabilities, b) Exploiting current market opportunities, c) Extending and renewing organisational capabilities and d) Exploring new market opportunities, are the key drivers of strategy. However, the study was very broad and it was mainly based on a review of the literature rather than research. As such, we cannot apply this framework for companies that want to use detailed strategies, because it is based on a very broad literature review rather than real business situations.

Therefore, in analysing the strategy process it is necessary to consider the divergence between strategy formulation and implementation. Strategy formulation consists of the planning and decision-making process that moves the organisation ’s strategic goals and plans. It consists of assessing the business environments, examining core competencies and creating goals and plans that fit within company capabilities.
On the other hand, strategy implementation is associated with executing the proposed plan. It consists of: team work, adjusting new technologies, concentrating on processes rather than functions, focusing on communication channels, offering incentives to increase motivation and making structural changes to respond to the changes in the external environment.

Mintzberg, Quinn & Ghoshal (1999) and Mintzberg, Ahlstrand & Lampel (1998) clearly state that it is important to analyse different schools in the field of strategy. Also, it is important to understand better the key factors that play an important role in the process of strategy formulation, such as identifying opportunities and risk, determining the company’s resources and understanding the personal values and aspirations of senior executives.

In the later studies, Mason (2007) researched the influence of the external environment on the strategic management by using qualitative techniques of case study and in-depth interviews in the South Africa IT market. His findings concluded that in a dynamic/turbulent environment, companies tend to have fast strategies in order to respond to market needs, where as, in a stable environment, they tend to have strategic planning activities that are more formal. He continued to emphasise that the formulation phase should come from the bottom to the top (within organisation chart), and it should be an organic and self-organised process (Mason, 2007).

Goll, Johnson, Rasheed (2008) did very similar research in the US airline industry to analyse whether the deregulation of industry has an impact on top-management, strategy formulation and company performance. The study mainly focused on the 1972-1995 period and it was concentrated on the airline companies and government institutions. The research concluded that when the industry is heavily regulated, companies tend to have less discretion on how to formulate and implement a certain strategy as government tightly controls the price, routes and competition. Whereas in the deregulation era management and executives are more independent to formulate their strategy and therefore influence firm performance by offering different services targeting different customers with variable prices (Goll, Johnson, Rasheed 2008). The main limitation of the study was that it focused only on US airlines and not other regulated areas such as telecommunication; also, it focused mainly on the period 1972-1996.

The resource-based view acts as a useful way of developing a strategic formulation process, with sustainable competitive advantage, strategies and business identities branching from a firm's tangible and intangible resources to dynamic and inimitable capabilities (Cummings & Angwin. 2004).

Furthermore, authors such as Barney (2001) and Priem and Butler (2001) have further defined the nature and complexities that are linked with different variation across companies based on resource view. A more drastic conclusion came from Kim, Nam, Stimpert (2004) who suggests that the growing view towards the low cost/differentiation framework may not be completely compatible with the present resource based view (RBV) of the company and it is incomplete if we referred today's digital industry. The author continues that the pace and dynamics in the global business environment have completely changed the meaning of strategy; as a result, speed, response time to competitors/customers, are becoming more valuable weapons with which to compete. Especially, if we refer to the Internet, we clearly see how it has minimised the importance of physical boundaries and distance, and can enable firms to serve larger markets more efficiently through implementing different strategies. The research results in the strategy field are very different because they tend to come out of different studies and they cover diverse outcomes, as a result, hypotheses are not tested in a standardised method (Thornhill and White, 2007).

In addition, competing companies may find it difficult to replicate an organisation's rare capabilities, known as "causal ambiguity" (Johnson et al 2005). Nevertheless, rare capabilities may become "core rigidities", impeding strategic innovation and the development of new capabilities (Grant 2005). Furthermore, Sheehan and Foss (2007), argue that the resource-based view definition makes the concept very rigid and it does not provide any prescriptive guidance for businesses.

This is because it is difficult to consider company drivers as resources; for instance, high capacity utilisation is not a resource, make or buy decision is not a resource. Also, timing is a driver but not a resource as it relates to when the asset is being purchased (Sheehan and Foss, 2007, p457). Companies must therefore put an emphasis on dynamic capabilities. Whether incremental or radical, strategic innovation can be essential to the existence of strategic flexibility. It is time to reinvent the components of strategy, by engaging more in what makes people human, that is to say, our creativity.

However, according to Mason (2007), the main problem of strategy making in a dynamic environment is to achieve adaptive innovation, while still achieving consistent and reliable execution of the strategy. Therefore, it is a necessity for companies to formulate a strategy that is appropriate for the organisation, appropriate for the industry and appropriate for the situation (Alexander, 1991). When there is a good configuration between strategy and organisational capabilities, it will be easier to achieve the desired outcome.

2.1.2 Strategy Implementation

According to Brouthers and Bamossy (2006), companies can successfully implement their strategy through JIV only if they paid more attention to fairly extensive and intensive set of post-formation processes such as cultural, trust, ownership and control issues.
Grant (2005) identifies that strategic implementation is increasingly focused on internal factors. More specifically, Markides (2004) states that an organisation's capacity to execute its strategy depends on "hard" infrastructure entailing organisational structure, and "soft" infrastructure including culture, people, and incentives. Important characteristics of effective environments, therefore, include: people trained to exploit the collaborative tasks; supportive cultures that shape the mood and motivate the workforce; a workplace that provides incentives to achieve their goals; and a structure which effectively coordinates and networks the efforts of different departments.

A real business example comes in the early 1990s as the Philips Company was diversifying into the Eastern European market, it nearly failed because it ignored its organisational environment (Campbell & Luchs, 1998). Chief executives were unable to win the attention of the business unit manager for their initiative, as they did not offer a good incentive for the employees. Other reason for their demise includes a switch from geographical structure to a product structure, which made the role of the UK regional office unclear. The Philips example illustrates that the four elements, people, incentives, structure and culture, that Markides (2004) proposes are crucial elements within the organisational environment for effective and efficient execution of the strategy. The internal environment (or resource-based view as it is now known) is a key consideration in the process of strategy formulation (Ghobadian, Regan, Gallear, Viney, 2004). Grant (2005, p187) points out that 'if strategy had been designed without taking into account the companies' capacity for implementation, it is a lousy strategy'.

In later studies Amagoh (2009), concluded that the absence of effective leadership has had a significant impact on the ability to implement and sustain strategic change initiative. The main leadership role is to establish and reinforce values, developing a clear vision for the company and building the working community necessary to implement different strategies, and companies should have long-term focus towards investment on the leadership programs (Amagoh, 2009).

Another important factor in the strategy implementation is culture that, by itself, can shape the direction of an organisation. Research shows that companies support adjustability, responsive cultures that support "strategic flexibility" (Miller, 2004; Movando & Farrell, 2003; Shimizu & Hitt, 2004). On the contrary, cultures can influence employees' mindsets, causing conflict and resistance to new strategies, especially those involving radical or revolutionary changes (Johnson, Scholes and Whittington (2005); Shearer, Hames, Runge (2001)

Consequently, Miller (2004) argues that the notion of strategy must be ingrained into the culture of a firm. The internal structure and systems of a company are fundamental to the issues of competitive advantage and strategy choice. Once organisations have a clearly implemented strategy, the organisational infrastructure is another important factor that emerges. It is clear that strategy and structure are jointly related, whereby strategy affects the structure and the structure affects the strategy.

Moreover, strategic success does not reside with structure alone, but with the configuration of company structure, relationships and processes. In a study of the 100 largest organisational crises over the past five years, Probst and Raisch (2005) emphasise the importance of an organisation’s internal ability to implement strategy, highlighting in particular the organisational structure, the characteristics of the leadership team and the reward mechanisms. Koerner (2004) concurs, identifying that companies must provide incentives and reward mechanisms that align with the organisation’s design, core values and strategy.

In these circumstances, the significance of people as a resource is another important link towards strategic implementation. Strategic failure resides with a lack of people involvement (Beer & Eisenstat. 2004), seen for example in the strategies adopted by both Enron and Marconi, whereby employees became detached from the organisation. Chussil (2005) supports this, explaining that no one knows an organisation’s weaknesses better than its own people do. Usually, it is the middle managers that control the resources, activities and business processes that are crucial in enabling strategic success, and sometimes they have conflicting interests during strategic implementation, hindering the strategic outcome (Kim and Mauborgne, 2002).

Nevertheless, the organisational environment should not be limited to these factors alone, but should also consider the external environment. Markides (2004) points out the internal capability of promoting and supporting the implementation of strategy, but unfortunately, the breakdown often results from a lack of consideration of the external environment. Investigating the failure of Shell and its disposal of Brent Spar and Quaker, and its takeover of Snapple Nutt (2004), maintains that strategic decisions should revolve around all organisational stakeholders and linkages in supply chain.

According to research by Giround and Mirza (2006), focusing on local input linkages in the electronics industry suggests that the characteristics of foreign affiliates, the length and size of affiliation, that of embeddedness in the local economy, the entry strategy, the market orientation and the business environment of the industry are key factors. They would determine the success of linkages between the MNCs and local suppliers. This cross-country research in South East Asia, which focuses on supply linkages, is a valuable source for the development of government strategies to improve supplier-foreign affiliate linkages.

2.1.3 Evaluation (Synthesis) on Strategy Formulation and Implementation

There have been limited studies on how MNCs implement their strategy in emerging countries. The majority of the research has been focused mainly on the western countries focusing on 1980s-1998s business environments, and not thoroughly analysing their theories in new booming service sectors such as mobile, airline and retail. Apparently, the globalization processes have shifted the businesses from West to East. Not much research has been done in new emerging countries, which have started to apply the new business model only in the past 15 years.

The literature of business strategy has been divided into “two school of thoughts”: one is the Strategy Formulation, which sees the strategy process as a need to identify risks, opportunities, planning of resources/capabilities and assess the business environment by formulating strategies that are appropriate to the company. The Strategy Formulation School of thought is led by Chandler, (1962), Andrews (1971), Snow and Hambrick (1980), Mintzberg, Quinn and Ghoshal (1999), Alexander, (1991), Cummings and Angwin (2004), Grant (2005), Sheehan and Foss (2007), Mason (2007) and Goll, Johnson, Rasheed (2008).

Considering the growth of new business environment while new companies were successfully implementing new business models, different authors started to focus more on the strategy implementation model by focusing on how companies execute the proposed plan. The majority of the models were based on: unique strategic position, flexibility, strategic fit, structural changes, middle manager & leadership role, incentives, culture, trust, control, marketing strategies and all other tools that a company needs to implement its business strategy.

The school of thought on implementation is led by: Porter, (1996), Shearer et al (2001), Kim and Mauborgne (2002), Markides (2004), Miller (2004), Hunt and Derozier (2004), Koerner (2004), Johnson et al (2005), Grant (2005), Ghauri and Cateora (2006), Kauer et al. (2007), Pretorius (2008), (Parnell, 2008) and Kazmi (2008), Amagoh, (2009).

As a strategy it is a very broad topic, and different authors tend to focus on particular factors as a key, determinant factor for strategy success. However, as the market environment develops new opportunities are available, and strategic authors tend to adjust their theories with the new business realities. This has created theoretical differences between strategy formulation and strategy implementation because different authors supported their theory, based on their research interest, creating confusion to the business manager which way to follow in the real life.

In general, we could say that the strategy implementation concept is still in its early stage, as the main literature was produced between 1990s-2008. No conceptual or empirical research has been undertaken to underline a clear distinction in how companies should implement their cost leadership strategy in the service sector.

Considering this situation in the literature, I have summarized the Strategy Formulation and Implementation concepts in the section above (please see table 1). After that, I will analyse what kind of implementation models or frameworks have been developed by different scholars and see whether they have been created as a result of research in different industries/markets or they have been focused on a particular industry and business situation.

Table 1 "Summary of: Strategy Formulation and Strategy Implementation."

	Key Influential Factors	**Managerial Policies**	**Leading Authors**
Strategy Formulation *Identification of risks and opportunities, planning, action and resource allocation.*	- macro environment - industry sector - competition	- formulating strategies that are appropriate to company, industry and situation - understand how external environment influences strategy process - creating goals and plans that fit within company capabilities	- Chandler (1962) - Andrews (1971) - Snow and Hambrick (1980) - Mitzberg (1987) - Mintzberg Quinn and Ghoshal (1999) - Alexander (1991) - Mason (2007) - Goll, Johnson, Rasheed (2008)
Resource Based View (RBV) *Strategy formulation, continuously innovating new capabilities*	- constantly innovate internal capabilities of company	- combine tangible and intangible resources - upgrade marketing strategies - main focus achieve competitive	- Cummings and Angwin (2004); - Ghauri and Cateora (2006);-Sheehan and Foss (2007)

		advantage	
<u>Strategy Implementation</u> *Executing proposed plan*	- leadership - middle management - control - communication - employees - structural changes - motivation (incentives culture) - trust - ownership - length/size of affiliation towards linkages	- unique positions - flexibility - strategic fit	- Porter (1996) - Markides (2004) - Hunt & Derozier (2004) - Coombe and Greenley (2004); - Miller (2004); - Grant (2005) - Johnson *et al* (2005) - Kauer *et al*. (2007) - Pretorius (2008) - Parnell (2008), Kazmi (2008), Amagoh (2009) - Giround and Mirza (2006)

<u>Source:</u> Literature Review Summary "Strategy Formulation, Strategy Implementation and Resource Based View".

2.2 Strategy implementation – Frameworks and Factors

It was Waterman, Peters and Phillips (1980) that introduced one of the first implementation models known as the 7Ss, taking into account strategy, structure, systems, style, staff, skills, and subordinate goals. The authors considered each factor individually and how they affected the implementation process of business strategy. However, the main disadvantage of such a model was that they did not clearly explain how such factors are linked.

Later it was Hambrick and Cannella (1989) that introduced a new implementation framework based on the empirical research developed in a multi-business company focused on the role and significance of communication. Also, Pettigrew and Whip (1991) introduced a new way for managing strategic change based on 5 aspects: environmental analysis, how to lead change, human resources and evaluate the connection strategy and operational change.

Roth, Schwelger and Morrison (1991) empirically researched the significance of the global strategy on organisational design and its influence on the strategy implementation process. A quantitative research technique was employed and data were collected from more than 80 companies, from different units that were competing in the global markets.

These authors recognized six factors, which will influence on how to implement the global or multi-domestic strategies. These factors are: Coordination, management philosophy, configuration, formalisation, centralisation and integrating systems. The results of the research showed that global strategies had different implementation requirements. They concluded that when a suitable alignment between strategy, administrative methods and organisational capabilities existed, it was much easier to implement the strategy and achieve the stated objectives. Hrebiniak (1992) launched a new model to implement strategies in multinational companies based on leadership, assisting global learning, introducing global managers, creating a structure network of how to work with external firms. In the same year, Yip (1992) introduced similar factors that influenced the implementation process. They were the company structure, culture, people and managerial processes.

Schmeltzer and Olsen (1994) introduced a slightly different empirical implementation framework. It was tested in restaurant companies. Based on a case study approach, different managerial levels (middle and upper level) were interviewed and different administrative processes were analysed. The authors analysed several factors (environmental turbulence, company culture, IT systems, training, the size and geographic dispersion of the firm, the life cycle of the firm and industry and the background of leadership). They divided them into two groups: context – that includes company structure and business external environment; process factors – that includes all stages of the decision making process from analysis to implementation stage.

Furthermore, they developed some ideas to explain the link among the implementation factors. In general they saw the strategy implementation as a progression from context to process, and argued that the two components work together to make strategy work. In addition to further frameworks, the balanced scorecard method has been related to the strategy implementation in the recent years from Epstein and Manzoni (1998), Kaplan and Norton, (1996), (2001). This method aims to provide senior managers with a concise review of the key success factors that influence the business, and to assist the position of operations with the overall strategy of business. It is more accurate than previous models as it has grouped the financial side, customer perception, internal business factors, the learning process and growth viewpoint, in a more evident way. Generally, this method consists in advising companies to support their performance measures on these four standpoints.

In order to elaborate on such a method, Kaplan and Norton (1996, 2001) suggested five rules to achieve it. Firstly, transform the business strategy to operational activities; secondly, link the company structure to the chosen strategy; thirdly, make the new strategy everyone’s task; fourthly, make strategy a continual practice; and fifthly, organize change through good leadership. They identified slightly different factors such as: clarifying the strategic vision, interpretation towards staff members, continuous communication, linking different departments, planning update, target objectives and finally review the strategic feedback and learning process (Kaplan and Norton, 1996).

However, Okumus (2003) argued that some of these factors have been referred indirectly in most previous frameworks and we could say that the Kaplan and Norton model neither solves all implementation problems nor offers new insights into the strategy implementation. In addition, as stated by Norreklit (2000), the balanced scorecard is mainly a control tool with a top-down approach that has limited contribution from lower managerial levels; it does not emphasise the potential conflicts; and power struggles among groups of interest, company culture, and training.

According to Chakravarthy and White (2001, p.184), holistic theories in strategy development are “barely an ambition and rarely an accomplishment”. Even though such decisions are worthy of study, they do not explain the whole strategy process. Strategy processes continue to be problematic due to: lack of clear links to strategy outcome; focus on separate decisions rather than pattern of decisions that are built up into a strategy over time, and their failure to analyse the problem from multiple angles.

For Feurer and Chaharbaghi (1995, p16), the real competitive advantage results from a continuous progress of implementing new strategies that will distinguish the company from the rest of the industry in which it operates, and the main disadvantages in implementation theories are:

- Narrow Focus – Most of the research work is based on specific function of an organisation such as HRM, Marketing or Operation Management, and most of the academic groups are formed on the basis of a specialized area. Each group values its research area as being more realistic and intellectual demanding towards strategy implementation, therefore, the outcome has been very fragmented, thus creating only a half picture of the business world.
- Lack of Relevance – The research should not be concentrated only on its own process, but it should also be carried out to publish a result through balancing novelty and that that is already known. The research objective and research methodology should involve the researcher and the user.
- Lacks of Problem Understanding – The findings are usually generalized as the outcome influenced by the basic research assumption and different businesses are subject to different conditions.
- Neglecting the dynamics of change – In such a dynamic market and uncertain environment, there is no single generic method to conduct research.

We need an implementation model that will take more of a system’s view of the process and contain dynamic communication between context process and outcomes (Chakravarthy and White 2001). For instance, the procedures that arise at the individual level should be linked with processes at the group level, and with processes at the organisational level. Grant (2005) states that strategic implementation should be seen as a control tool, which guarantees strategic options, outlines taking actions and setting in a specific place. It is therefore more orientated towards taking action and measuring performance.

Nut (1987) analysed the strategic projects in 68 different companies to identify the implementation tactics. Analysis revealed that persuasion; intervention implementation was 70% in companies; participation and edict implementation was the other 30%. It is clear that, when managers demonstrate the new values or new planning process, they are more likely to motivate their staff members. Also, as the manager has new-delegated authority to control the planning process, the new norms are used to identify performance problems in the strategy processes.

According to Dobni and Luffman (2003), the strategy implementation of a company is influenced by its market orientation. This includes how the entire staffs collectively behave towards new direction and how the company interacts with its environment. Based on their research and consultancy work they specifically stated, “The key to a successful implementation resides in the ability to guide and manage employee behaviour,” (Dobni and Luffman 2003, p 577). The company could also grew profitable by finding ways of reducing costs and use the saved capital in new business opportunities (Peccei, 2004). Even though most companies have experienced some cost cutting programs, Peccei (2004) explains that they failed to establish competitive advantage due to the following reasons:

- It reduces the effort for more durable strategies in longer terms
- Focus on single target without considering other business units. Valuable capabilities are lost, reducing the competitive advantage of the company.
- Cost programs are short-term policies rather than a continuous processes

Based on the drawback, the author proposed that new business implement cost leadership strategies by following four principles. As a first principle, Peccei (2004, p 36) states that the company should use ambitious sales and earning growth targets to motivate the need for commitment and oriented toward cost management. This is done to create a philosophy of growth as part of business strategy. The second principle is that managers should implement cost reduction targets on the existing strategy for each business unit by balancing short-term gain and long-term benefits (Peccei, 2004). Therefore, the managers need to compare the cost levels with competitors, other business units within the company and with the cost level you need to save to support the long-term growth.

The third principle is differentiating between good and bad costs (Peccei, 2004). In such situation the senior managers need to identify the key competitive advantage of the company and it needs to classify the costs that reduce the profitability level in the long term as well as the costs needed for long-term success.

The fourth principle is to create the appropriate environment for constant cost management by introducing detailed financial report over each business and monitor overall and specific initiatives from new organisational structure (Peccei, 2004).

However, the fourth principle model introduced by Peccei (2004), lacks qualitative or quantitative research and it does not support the real company examples how cost reduction programs fail. In the meantime, the proposed model is very descriptive, with detailed explanation, just briefly describing how companies should manage costs better.
In the later studies, Khalifa (2008) used a comprehensive review of literature in underlying principles that form the basis of the strategy frame called 4 Es. This model includes that companies should “exert” current organisation capacity to take advantage of present business opportunities; they should “Exploit” any current market opportunity; “Extend and renew” the organisation capacity to be prepared for seizing emerging opportunities, and finally they should “Explore” all the business opportunities (Khalifa, 2008).

Nevertheless, there is still a lack of research in the implementation process and there is a tremendous need to review the entire literature to create an implementation model and put it into practice in a MNCs company (Kazmi, 2008). The study by Kazmi (2008) was based on the latest literature review (Johnson, Scholes, and Whittington, 2005; Dess, Lumpkin and Eisner, 2008; Hitt, Ireland and Hoskisson, 2008), and he cited three as the activities that companies need to focus on: project implementation, procedural implementation, and resource allocation. All these three activities need to be managed through structure, leadership and behavioural context. After this is done, companies need to be effective by creating clear functional and operational activities that will implement the strategy (Kazmi, 2008).

The only problem with this model is that it was applied only in one company in India (Reliance group) and the implementation model continues to be very general rather than focusing on a particular strategy and propose a particular solution. It seems that these models consider a range of complexity tools that the CEO uses during the implementation phase. Some of them are not correct for all firms, but their use depends on the degree of diversification, rate of growth and change of culture.

Guth and Macmillan (1986) focused on another implementation factor and they state that middle managers are the key people that execute the strategy, as they are motivated more by their perceived self-interest rather than by the company interest, unless they agree with it. Therefore, the possibility of disagreement between the self-interest of middle managers and company interest (as seen by the CEO) makes the management of those processes create middle management commitment, a critical perquisite for the effective strategy implementation. The authors clearly state that if their interests were not met, then it is more likely to have a poor quality, delaying time processes and they can totally sabotage the strategy.

To support this view further, Parnell (2008) researched how strategy was implemented in emerging countries such as Mexico and Peru. He surveyed 218 Mexican and 270 Peruvian managers enrolled in the post-graduate business programs. He concluded that for a successful implementation, senior managers should understand the role of low and middle managers; they should fully involve them once they formulate the strategy and they should look for their commitment towards the company. However, the study concluded that middle and lower level managers have different views on the process of implementation and these differences are as a result of the economic cycle, organisational culture and management practices (Parnell, 2008).

Kauer, Waldeck, Prinzessin and Schaffer (2007) studied the structure of top management teams on strategic decision-making by using a multi-case study approach in 46 companies in Germany, mainly from manufacturing and finance industry to better understand how senior managers practice strategic decision making. Their study concluded that to successfully implement strategic decisions, the company should build diverse teams with different personalities and professional backgrounds to be able to compensate for strength and weaknesses within the team.

From a slightly different angle, Cavusgil Ghauri & Agarwal (2002) see the international business strategy and marketing as universally applicable, but the environment within which marketing plans must be implemented is different from market to market (p.39). The external factors include: market structure, political and legal forces, economic forces, level of technology, structure of the distribution channel and culture. According to Ghauri and Cateora (2006), managing controllable (4Ps) and uncontrollable elements are very difficult. Even later textbooks in the field of strategy field, such as Carpenter and Sanders (2007), state that the implementation process is done through organisational structure, systems, processes, people, rewards and leadership involvement in the resource allocation and communication process.

Further research by Giroud and Scott-Kennel (2009) created a new framework for successful MNE linkages in international business. This framework states that a company's capability and resource development via foreign–local interaction depends on the scope, quantity and quality of linkages formed. The linkage quality means to better understand the depth, transfer and duration between the MNE and local company during the resource sharing (Giroud and Scott-Kennel, 2009). Meanwhile, the concept of quantity of linkages focuses more on the scope of linkages. These three linkages (scope, quantity and quality) will involve trade-offs between them and maintaining equilibrium between global and local concerns (Giroud and Scott-Kennel, 2009).

So, by implementing the framework concepts of Giroud and Scott-Kennel (2009), companies can better understand how different linkages offers potential for development within a single firm, industry or a region. "The creation of linkage depends on a number of factors, such as the level of resources available to the subsidiary, its size, existing networks or strategy." (Giroud and Scott-Kennel, 2009, p.562).

However, Parnell (2006) stated that academics from the strategy field, especially those who focus towards the "hybrid strategy school" based their arguments on broad economic relationships and poor evidence of individual firms, who have identified unique relationships on a small group of companies in an industry. Research by Kumar, Subramanian and Yauger (1997) identified that hospitals that followed different generic strategies, based only on low cost strategy, were the best route to superior performance. This is because low cost strategy is more simply implemented, whereas differentiation strategy struggle in the service industry as service is easily copied due to it simplicity, unless the target maker is highly sophisticated (Devlin and Ennew, 1997).

2.3 Low Cost Strategy

Strategy implementation processes are important for managers that are seeking to increase the performance of their companies through using different generic strategies. In addition, different literature from Porter (1980, 1996), Hambrick (1983), Dess and Davis (1984), Kumar et al (1997), Thornhill and White (2007), Peteraf and Reed, (2008), has further elaborated on generic strategy and supported the view for single-strategy benefits. According to Porter (1980, 1996), greater performance can be attained through implementing generic strategy, such as low cost, differentiation, or focus on a competitive industry. A company, which does not follow one of these strategies, will be stuck-in-the-middle and will face lower performance when compared with firms that pursue more focused strategy (Porter, 1980).

Low cost strategy is established on generating a low-cost position to local or other foreign companies in an emerging market. With such a strategy, the companies should implement better production and operational management techniques through strong focus on incremental costs, overhead control, and cost minimisation in all activities such as: R&D, advertising, process innovation and new product development (Luo and Zhao, 2004).

MNCs often implement such strategies when they operate in mature industries or highly competitive market, as they tend to familiarise themselves with the new market. According to Luo and Zhao (2004), such strategies do not require strong parent support in critical technological capabilities, nor do they require regular sharing of information and managerial expertise with companies in other countries. They simply gain cost leadership in a new emerging market by reducing direct and indirect costs.

It is true that some companies, implementing cost strategy, may still need support from headquarters in: managerial skills, economies of scale in bulk buying, source of information, production plant scale. However, according to Luo and Zhao (2004), the overall needs for headquarter support or corporate sharing under this strategy is relatively narrower or weaker than those using differentiation or focus strategies. Following Porter's logic, the authors suggest that some MNCs are more likely to focus on low cost strategy than on product differentiation, because of greater needs for sharing global economies of scale, better saving costs across countries, and more leveraging of existing knowledge. This seems logical for MNCs that are looking for standardized products and services in emerging markets such as the Eastern Europe.

Thornhill and White (2007) carried out research in 2,351 businesses through multi dimensional industries (manufacturing, services, trade, transport) in Canada, and concluded that strategic purity creates superior operating margins in the main cases. This is mainly because firms that tend to reduce costs are generally based on the internal advantages and it is more difficult for competitors to observe and imitate them, whereas service leaders are by their nature observable by customers and competitors (Thornhill and White, 2007, p.559). The result shows strong support for the resource-based view that competitive advantage is achieved mainly from a company's resource and capabilities.

However, other authors, such as Le and Nhu (2009), have shown that companies tend to use both cost and differentiation competitive methods, but still a performance benefit is not always evident and it depends on the market circumstances, leaving a gap for further research.

Porter (1980) points out that the company cannot be focused only on a low cost leadership or differentiation strategy excluding all other strategies. He insists that low cost companies must dedicate some resources to differentiation activity, and those that follow a differentiation strategy cannot abandon the cost structure. Nevertheless, different authors have analysed the effects of implementing cost or differentiation strategies; the results have not been convincing that following one of these strategies enhances company performance.

Even though Porter (1980) received considerable support from Hambrick (1982), Dess and Davis (1984), Thornhill and White (2007), his main theory was challenged by a number of studies by Buzzell and Wiersema (1981), Parnell (1997) Proff (2000), Le and Nhu (2009) and those that came from the "hybrid strategy school". They argued that companies could successfully implement low cost and differentiation methods by creating synergy.

Parnell (2006) stated that Porter's work is seen as a turning point for the strategy field, receiving tremendous attention from other authors. But his model continues to be: a) a question by different scholars and b) the dynamics in business environment in the past 3 decades has shown the need for further research on the strategy implementation model especially in emerging markets where there is no detailed evidence. Also, a recent study by Le and Nhu (2009) on food retail strategy in the recession economy, based on qualitative research in the Finnish market, concluded that in difficult times companies need to combine low cost and differentiation strategies. The low cost strategy is implemented by creating a logistic centre to increase staff effectiveness, reduce waste, take out unprofitable products and use promotional campaign effectively by choosing the right time or channels, whereas the differentiation strategy retailers need to be selective on product offering and marketing creativity (Le and Nhu, 2009). However, the research focuses only on one retail group in Finland and it is difficult to validate or generalise the research conclusion.

On the same lines, Miller (1992, p40) clearly stated that: “Pure cost leadership is most effective when customers are sensitive to price and when there is a fighting chance to maintain a cost advantage because of economies of scale, proprietary technology, or unique access to cheap materials or channels of distribution.” As service customers are very price sensitive, especially in Eastern Europe (where personal income is low), implementing a low cost strategy may gain competitive advantage over companies that implement differentiation strategy types or those that are stuck in the middle. In addition, most research has been conducted mainly in the manufacturing sector leaving plenty of room for the service sector. Therefore, further research is needed to examine the external and internal conditions of a company in order to successfully implement the low cost strategy in the service industries.

2.3.1 External conditions required for low cost strategy

According to Porter (1980), some external conditions are required for the low cost strategy. For a start, the target customers need to be as wide a selection as possible in the industry, so the demand can be marked over a broader range, and not segmented only in niche markets. In addition, Murray (1988) stated that the client’s demand for products and services needs to be price sensitive. To meet this wide and considerable demand, significant resources are required to better serve the clients not only with an affordable price but also at every point of sales. The high cost of investment will act as a barrier to entry, and it will prevent small companies following a cost leadership strategy (Wright, 1987).

However, if we considered the example given by Murray (1988) in the gasoline retail business, we would see that the price sensitiveness is not enough for low cost leadership to be fully implemented. If we refer to this business, it is clear that the clients are very price sensitive and there is plenty of demand, but unluckily the cost structure of gas is fairly similar for everyone. This prevents companies from successfully implementing the low cost strategy. The question arises, how could companies create a low cost strategy advantage? The answers are similar, but the essence is through focusing on efficiency such as economies of scale, bulk buying, distribution channels and marketing (Krajewski and Ritzman, 2005). In the service sector, efficiency is achieved through introducing innovative business, such as EasyJet that have structured whole processes based on lower costs. In the mean time, there is limited awareness towards deregulation effects in the company cost structure for airline sector (Peteraf and Reed, 2008). Whereas in manufacturing, efficiency is achieved through better managing the new technologies and other factors that we mentioned before.

In general, an employee can achieve efficiency as a result of good productivity by controlling costs and using resources in an economical way, better than competitors do (Hambrick, 1983). Thornhill and White (2007) supported the view that different models in the generic strategy field have central elements such as operational superiority, utilization, cost, efficiency, reliability and implementation.

However, other authors, such as Lamont, Marling, Hoffman (1993) and Lee and Miller (1996), have seen that in dynamic and unpredictable markets the differentiation strategy is more successful. Baack and Boggs (2008, p125), argued that, "… implementation of a cost-leadership strategy by MNCs is rarely effective in emerging markets, and that MNCs may benefit from using different strategies in different markets". However, the key problem of the research was that there were no empirical data or statistical analysis, but it is based more on literature and non-systematic observation. Nevertheless, the analysis focuses on a single country perspective (Gopalakrishna and Subramanian, 2001) for India; Green Lisboa, Yasin (1993) for Portugal; and Svatopluk, Bacharova, Rusnakova, Wagner (2001) for Slovakia. Therefore, it is clear that the conclusions are seen from the country perspective and not as a group of emerging markets that have similarities.

2.3.2 Internal conditions required for low cost strategy

Companies that implement a low cost strategy tend to have low cost policies in every aspect of strategy, where every staff member is fully committed to their cost requirements (Malburg, 2000). The companies achieve this by reducing any activity that does not create a cost advantage and they delegate such responsibilities to the companies that are more cost efficient (Malburg, 2000). According to Hyatt (2001), companies that want to lead by saving cost, need to have a large market share, and they should be focused on many areas such as: mass production or services, mass distribution, economies of scale, technology, product/service design, utilization of resources, and good access of raw materials or staff members (Hyatt, 2001, Venua, 2001, Porter, 1980).

Peteraf and Reed, (2008) carried out cost saving analysis of the airline sector in the US market and suggested that technology is one of the most important factors that reduces costs, increases efficiency and diminishes the negative effects of environmental changes. In this case, the term technology means all administrative practices and procedures by which inputs are transformed into service output (Peteraf and Reed, 2008, p110). If we refer more specifically to the service sector, the low cost advantages could come from new process innovations, a better learning curve, new service design, less time/costs, and fully reengineering activities based on economies of scale (Richard and Marilyn, 2004). Applying a micro-economic logic of supply and demanding lower prices, increasing the demand for goods and services, will increase the market shares (Helms, Clay and Peter, 1997). These act as a barrier for competitors, who want to enter the market, as it needs a large amount of capital and investments (Hyatt, 2001).

However, according to Cross (1999), such a strategy reduces the customer loyalty and if the company lowers prices too much, it may lose revenues. Also, Richard and Marilyn (2004) supports the view that the low cost strategy is implemented successfully when the business product or service is more efficient than its competitors are, and if that was not the case, any reduction in price would lead to a price war and lower profit margins. Porter (1996) stated that only one firm in an industry could be the cost leader, and if the difference between a company and competitors was not clear, it could risk its profit levels.

In such circumstances, Hyatt (2001) suggests that companies should target a specific segment of the market to shift the “game” in its own field. They can decide on a particular customer group, product or service range, geographical division. The main aim is to increase the market share by targeting niche segments that are not attractive to larger competitors. By doing so, the company is always striving for new opportunities to expand the business and to make it even more difficult for other companies to compete in new segments, as it requires extra investment costs and greater risk. A clear example of a company, which has been continuously focused on different segments for low cost strategies, is EasyJet, which has introduced the low cost strategy not only in airlines, but in the travel industry as a whole.

2.4 Evaluation of Literature Review for Strategy implementation Factors (Synthesis)

Table 2: Summary: Strategy Implementation process

Strategy Implementation Models and Comments	**Managerial Policies during formulation and implementation**	**Leading Authors**
- Generic Strategies	- Cost Leadership Strategy, Differentiation Strategy, Segmentation Strategy	- Porter (1980)
- 7S Model	- Strategy, Structure, Systems, style, staff, Skills, Subordinates	- Waterman *et al* (1980)
- 5 Aspect of Implementation	- Environmental analysis, leading change, HRM, links with strategy and operational change	- Pettigrew and Whip (1991)
- Implementation process	- Structure, culture, people, managerial processes	Yip (1992)
- Implement through linking	- Strategy and operational activity, structure and strategy, strategy in every task, continual process, leadership	Kaplan and Norton (1996)
- Balance Scorecard Method	- provide review for senior managers for key success factors of the business, than implement	Epstein and Manzoni (1998)
- Implement: market differences	- business strategy must be implemented differently from market to market, due to changes in environment	Cavusgil, Ghauri and Agarwal (2002)
4 Principle Model	- cost strategy: ambitious sales, cost reduction targets, divide good/bad costs and create good environment	Peccei (2004)
- Implementation: Control Tool	- Implementation should be a control tool orientated towards action and measuring performance	Grant (2005)
- Implementation process	- Structure, systems, processes, people, rewards, leadership, resource allocation and communication	Carpenter and Sanders (2007)
- Managerial	- The implementation process should be bottom-	Mason (2007)

Implementation	up, organic and self-organised. Environment will influence how to implement the business strategy.	
- Strategic Decision Implementation	Top Management should building diverse teams to overcome weaknesses. Leadership is important	Kauer *et al*. (2007), Amagoh (2009)
Strategy Implementation Models and Comments	**Managerial Policies during implementation**	**Leading Authors**
- Implementation Process	- 1. Project/Procedural/Resource allocation. 2. Manage change by: Structure/Leadership/Behaviour practices. 3. Achieve effectiveness with functional and operational tools. 4. Evaluation and Control	Kazmi (2008)
- 4 Es	- "Exerting" and leveraging organizational capabilities, "Exploiting" current market opportunities, "Extending" and renewing organizational capabilities and "Exploring" new market opportunities are the key drivers of strategy	Khalifa (2008)
- Framework for MNE linkages in international business	- company's capability and resource development via foreign-local interaction depends on the scope, quantity and quality of linkages formed - there is reduced autonomy of subsidiaries to engage with local firms as a result of relatively centralized strategies of MNCs	Giroud and Scott-Kennel (2009)

Strategy Implementation Problems	**Managerial Policies Problems**	**Leading Authors**
Holistic theory	Holistic theory (of Johnson *et al*) in strategy are	Chakravarthy and

	barely an ambition and rarely accomplishment	White (2001)
Researchers problem	Lack of relevance, problem understanding, neglecting dynamic changes, narrow focus	Feurer and Chaharbaghi (1995)
	Literature Gap	Author

All different models represent increasing attention on bringing the implementation concept forward in the strategic management process. Based on the previous frameworks and models from different authors (see table 2, p.41), we could summarise that there are several factors that can be identified in the strategy implementation process. According to Yip (1992), Brothers and Bamossy (2006), Mintzberg, Quinn and Ghoshal (1999), Probst and Raisch (2005), Mitzberg, Ahlstrand and Lampel (1998), Miller (2004), Beer and Eisenstat (2004), Hambrick and Cannella (1989) and (Kim and Mauborgne (2002), Guth and Macmillan (1986), Parnell (2008), Peccei (2004), Grand (2005), Carpenter and Sanders (2007), Kumar, Subramanian and Yauger (1997), Kazmi (2008), Khalifa (2008), Giroud and Scott-Kennel (2009), the main common factors, usually influencing strategy implementation, are:

1 Culture
2 Trust
3 Ownership
4 Control
5 Values, aspiration of CEO
6 Structure and coordination
7 Incentive and control
8 Leadership style
9 People/team
10 Communications
11 Middle management influence
12 Linkages

Also, the external factors (1, 2, 3) were considered in the strategy formulation process by Chandler (1962), Andrews (1971), Porter (1996), Mintzberg Quinn and Ghoshal (1999), Coombe and Greenley (2004), Mason (2007), Goll, Johnson, Rasheed (2008) etc.; factor (4) was considered by Markides (2004), Hunt & Derozier (2004) etc.; factor (5) was considered by Miller (2004), Grant (2005), Johnson et al (2005), Kauer *et al*. (2007) etc. (please see table 1, p.26).

1. Macro environment
2. Industry sector
3. Competitors
4. Flexibility
5. Strategic fit

All the above factors that are analysed by different authors can be seen as broad topics in the formulation and implementation process. It is very difficult to undertake comprehensive research based on all these factors. Based on internal and external factors, there is a real need to test such inputs and to see: What are the real impacts of these factors on a particular strategy that a company follows. Otherwise, the strategy formulation and implementation concept will follow the same academic debate as the definition of "strategy", where every author writes about the strategy based on a particular research interest.

However, we can argue that evaluating the formulation and implementation process from different viewpoints tends to be a very positive thing, as it gives us a real understanding of how the implementation process really works. Still, most of the implementation models, particularly in low cost strategy area, are based on conceptual frameworks not on thoroughly empirical or qualitative research in different markets or industries. We have seen that different frameworks do not clearly explain how the strategic fit is achieved and maintained in the long run amongst key variables.

Most of the frameworks are from the strategy formulation field such as SWOT analysis, 7S and Generic Strategies, but no similar agreed models have been used for the implementation process. This is because the implementation concept only came about in the 1980s with the 7Ss model, and other authors developed it further in 1990-2004 – not much empirical or qualitative research was done on the service sector, which is the main engine of world economy. There are also methodological difficulties, as the key variables of strategy implementation tend to vary in different environments. This has made it very difficult for authors to produce the right implementation model for MNCs companies, as we

tend to have in Strategy Formulation with SWOT analysis (which is widely recognized by business managers).
Under such circumstances, further empirical or qualitative research is needed to investigate and evaluate the strategy formulation and implementation processes of cost leadership. However, I believe that without having a comprehensive strategy implementation framework on low cost strategy, differentiation strategy and hybrid strategy, the researching of strategy implementation can present inadequate understanding and insight in this complex area of strategic management. In this case, it is wiser to concentrate only on Generic Strategies, especially on the low cost strategy literature, to better analyse how MNCs formulate and implement their low cost strategy in the service sector. By doing this, the research will become narrower so that we can demonstrate an excellent understanding of it, including having enough examples and important details in the formulation and implementation process.

So, finally the main conclusions of this literature review can be summarized as follows:

- The literature review shows that the strategy formulation and implementation concept is still in its early stage considering the fact that the main literature for the formulation and implementation process came between 1990 and 2008. No conceptual or empirical research has been undertaken to underline a clear distinction between different types of firms in implementing strategies in terms of low cost leadership. Furthermore, previous studies have not put forward any research implications on implementing strategies in the service sector in emerging countries such as South East Europe.
- Analysing the strategy implementation from different angles appears to be very positive and relevant in evaluating the recent debate on strategy formulation and implementation process. There is still some confusion between “hybrid strategies” and generic ones, as there is no clear-cut indication if companies implement either cost or differentiation strategy or whether they implement both methods at different periods. Conversely, these arguments are based mostly on conceptual frameworks rather than empirical analysis and therefore they do not emerge from practical experience in implementing a strategic decision. Under such circumstances, further empirical or qualitative research is needed to investigate and evaluate the strategy development and implementation processes of cost leadership.

- Most of the strategic frameworks do not clearly explain how this strategic fit between the key variables can be achieved and maintained. They failed to explain how different variables interact and influence each other and how these interactions make strategy implementation possible. It is therefore clear that the new business model should be a fit between all variables.
- There are existing frameworks in the strategy formulation field such as SWOT analysis, 7S and Generic Strategies, but not such agreed models are used for the implementation process. The main reason for this is that there are theoretical and consequently methodological difficulties in researching the strategy implementation process. It is believed that without having a comprehensive strategy implementation framework on cost leadership, researching strategy implementation may not present adequate understanding and insight into this complex area of strategic management. This being the case, this research will apply a strategy implementation framework and it will evaluate strategy implementation from different approaches that have an influence on costs. The strategy implementation framework is developed from the literature review and it will form the foundation of the fieldwork research.
- In linking the framework with cost leadership, the literature review implies that each implementation approach should have a specific proposition on how these factors should be designed and employed. Grant (2005) suggested that future researchers should see the formulation and implementation processes as a joint control tool, which guarantees strategic options and actions for a specific place. More orientation is needed towards taking action on cost focusing methods and measuring performance for formulating and implementing such a strategy.
- It is necessary to look jointly at the strategy formulation and implementation factors, and analyse how they are interlinked during the implementation of low cost strategy. This will create the basis to recognize and evaluate jointly the formulation and implementation processes as each factor is correlated during the implementation of low cost strategy.
- Regarding future research, Feurer & Chaharbaghi (1995) suggested that we should examine other factors such as: narrow focus, lack of relevance, and lack of problem understanding and neglecting dynamics of change.

- According to Goll, Johnson and Rasheed (2008) changes that take place due to the industry transitions from the regulated era to the post regulation era remain mainly unexplored. Deregulation is one of the most significant environmental factors that influences implementation. We therefore want to analyse the role of the environment in the implementation process from the regulation deregulation era for low cost strategy.

One of the most important aims of the dissertation is to contribute to different businesses that are willing to establish a low cost strategy. Nevertheless, different authors from the strategy implementation literature do not suggest a detailed outcome on how the strategy implementation process can be measured and achieved. As indicated by Johnson *et al* (2008) this is because there are different variables that can have an influence on strategy formulation and implementation and there is no clear explanation of success factors for such options.
The literature review was divided into four parts by giving a general view on: strategy, formulation and implementation process, and then narrowing by reviewing cost policies and cost leadership strategy in the service sector. These four parts of the literature were analysed through reviewing different authors' standpoints and frameworks. There are a number of methods of strategy formulation-implementation and the evaluation of these frameworks should be interpreted as a sequential development of the strategic literature. It seems that each business model has a different environment and variables for the implementation process. Previous researchers, mainly from the contingency school, have developed implementation frameworks by including multiple variables. However, the main disadvantage is that all these models have been developed only in the past 25 years and they are mainly conceptual with not much empirical or data analysis, and they tend to be very broad. It is therefore clear that there should be a fit between the key implementation variables if the implementation process is to be achieved.

Based on the review of the strategy formulation and implementation frameworks and their implications, thirteen key implementation variables have been identified and these variables are grouped into four categories: external factors, internal factors, strategy formulation and strategy implementation policies (please see table 3).

Table 3: Key Factors for Implementing Low Cost Strategy

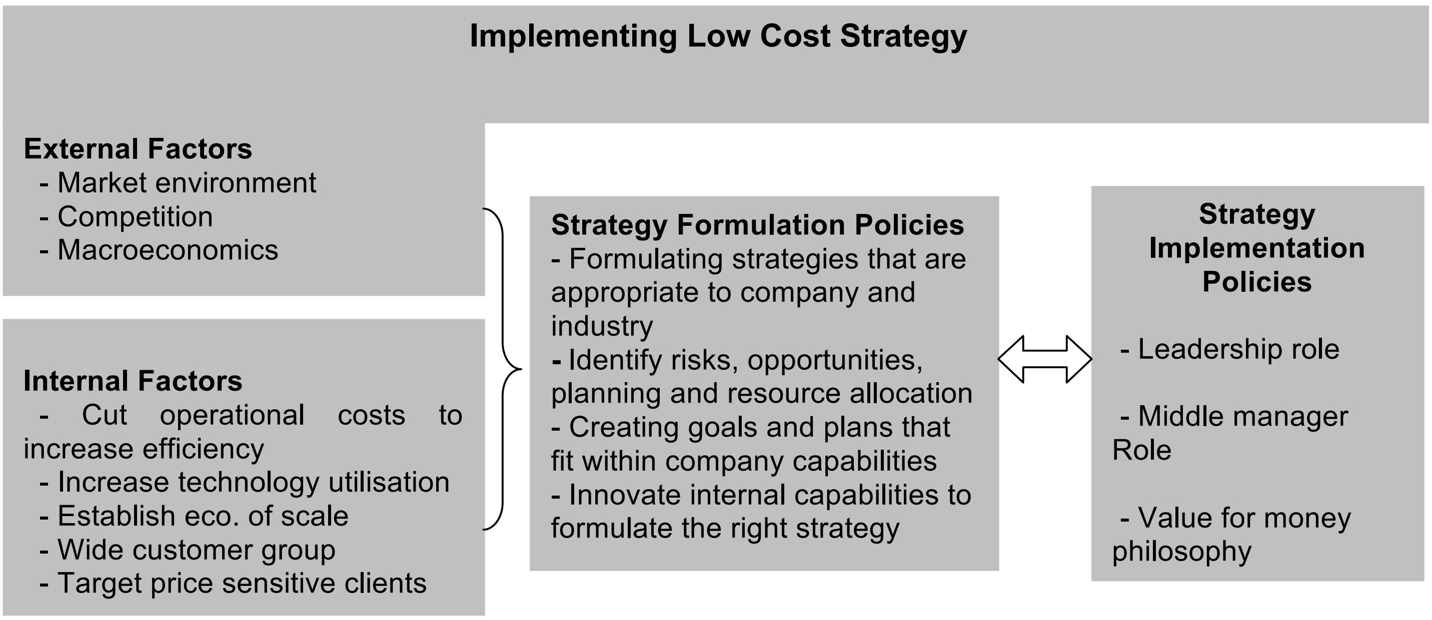
Strategy Implementation	Requirements	Leading Authors
External factors	- To implement low cost strategy, companies need to analyze external environment: • analyze macro environment • industry • competition	- Snow and Hambrick (1980); Mintzberg Quinn and Ghoshal (1999); Coombe and Greenley (2004); Johnson at al (2008); Goll, Johnson Rasheed (2008)
Internal factors	Operational efficiency that is needed to implement cost policies and low cost strategy • Operational efficiency in day to day activity • Technology utilization • Eco. Of Scale • Target group (wide customer group and sensitive clients towards price)	- Porter (1996); Murray (1988); Wright (1987); Malburg (2000); Richard and Marilyn (2004); Luo and Zhao (2004) Peccei (2004) ; Thornhill and White (2007); Hyatt (2001); Venua (2001); Kumar, Subramanian and Yauger (1997); Richard and Marilyn (2004) Peteraf and Reed, (2008)
Strategy Formulation: Policies from Management	Identification of risks and opportunities, planning, action and resource allocation • Formulating strategies that are appropriate to company and industry, understand how external environment influences strategy process • creating goals and plans that fit within company capabilities, combine tangible and intangible resources • innovate internal capabilities of company to formulate the right strategy	- Chandler (1962); Andrews (1971), Snow and Hambrick (1980), Alexander (1991), Mintzberg Quinn and Ghoshal (1999), Mason (2007), Cummings and Angwin (2004); Ghauri and Cateora (2006); Sheehan and Foss (2007)
Strategy Implementation: Policies from Management	Management level that is needed to implement the cost leadership: • Leadership role in formulating and implementing low cost strategy • Middle Management role in implementing cost leadership strategy • Create Value for Many Philosophy through Team Works and Clients	- Porter (1996), Markides (2004) ; Coombe and Greenley (2004); Hunt and Derozier (2004); Miller (2004); Grant (2005) Johnson et al (2008); Kauer et al. (2007); Pretorius (2008); Parnell (2008), Kazmi (2008); Amagoh (2009)

2.4.1 Proposed Model: for Implementing Low Cost Strategy

Under such circumstances, further empirical or qualitative research is needed to investigate and evaluate the formulation and implementation policies for low cost strategy.

The external environments that are described in macro level are identified as key factors that are not controllable by companies, whereas companies manage the internal environments that are described in intermediate and micro levels (please see the conceptual model fig. 2). According to Nasir and Altinbasak (2009), managing external and internal factors is a very complex job, and controlling those factors requires a multidimensional approach. Within our study, we aim to propose a more simplified model by understanding both external and internal factors that determine the implementation process of cost leadership strategy in the service sector.

Figure 2 Conceptual Business Model: Implementing Low Cost Strategy



Therefore, the cost cutting policies and low cost implementation model raises and identifies a critical strategic issue that needs management's attention. The model balances the external and internal factors that influence formulating and implementing low cost strategy. It draws the attention of the companies to the fact that strategy formulation and implementation should be jointly analysed, as they are interlinked. For instance, the leadership identifies risks, opportunities and creates goals and plans that fits within the company capability, whereas middle managers follow the value for money philosophy in

each department and make sure to implement their strategy successfully. Evaluating the formulation and implementation process jointly tends to be a very positive thing, as it gives us a real understanding of how the implementation process really works. There are also methodological difficulties, as key variable of strategy implementation tends to vary in different environments, but as the research is based on two similar markets like Albania and Macedonia, such challenges will be overcome. This has made it more convenient for the author to produce the right low cost implementation model for MNCs companies in the service sector.
The variables in this framework are not measured separately because the variables in one group can influence the other group variables and therefore it has influence on the outcome of the entire process. Therefore, we suggest that such an approach would be very effective as all factors are concentrated only on the impact that it has on implementing low cost strategy. It is also important that the nature and interactions of all implementation variables affect the process variables and consequently the result. A number of factors such as company capabilities, market situation, customers, operations of company and management role are mentioned at the proposed model and many authors referred to these as key formulation and implementation factors.

However, the above business models on strategy implementation do not clarify and illustrate how these variables are linked, how they have an impact on the low cost strategy and how these interactions influence the implementation process. In other words, the implementation models on low cost strategy should go beyond just listing the most important factors that companies need for cutting costs. The proposed business model will frame and guide the qualitative investigation for this study to better understand how these factors are interrelated to each other and see if there are other variables that need to be considered. It is very important to analyse whether our model appeals to companies in the service sector and observe how companies implement cost strategy in different markets and validate the concept through observing different sized companies in main the service industries such as airline, retail and mobile telecommunication.

By evaluating, similar market structures, similar companies size in main service industries, the researcher will be in good position to see whether the proposed variables are key success factors for formulating and implementing low cost strategy or if there are other factors that need to be considered.

Chapter 3: Research Methodology

This chapter explains the methodology that will be undertaken for this research. It starts by explaining the research design and research strategy; then it analyses two different research methods and justifies the adoption of a qualitative research strategy and case study approach rather than quantitative method (please see fig. 3). In addition, it describes the reasons the data collection methods was chosen, and it will present a detailed explanation on how the sample of MNCs should be selected from the service sector, and how they should be accessed and analysed. The chapter will end by presenting the research findings from the service industry of South East Europe.

Figure 3: Structure of research methodology

3.1 Inductive and Deductive Approach
Qualitative vs. Quantitative

3.2 Research Strategy
3.2.1 Why Case Study
3.2.2 Why Multiple Case Study

3.3 Case Selection
3.3.1 Service Industry
3.3.2 South East Europe
3.3.3 Airline Industry
3.3.4 Retail Supermarket Industry
3.3.5 Mobile Telecommunication Industry
3.3.6 Albania Airline and Swiss Airline
3.3.7 Euromax and Ramstore
3.3.8 AMC and VIP Mobile
3.3.9 Selection of Companies: Criteria

3.4 Research Approach and Techniques for Data Collection
3.4.1 Interviews
3.4.2 Procedures
3.4.3 Documentation

3.5 Data collection in Albania and Macedonia
3.5.1 Data Collection Approach
3.5.2 Data Collection at Operational and Employees

3.6 Data Analysis
Explaining how the data will be analysed

3.7 Research Ethics

3.1 Inductive and Deductive

Two methods of knowing what is accurate and drawing a general conclusion from analysis are the induction and deduction approach. Ghauri and Gronhaug (2010) suggested that through the induction method, the researcher draws a general conclusion based on evidence through empirical observation and the main process is looking at all the different facts to create a reliable theory. The other approach is deduction, where the general conclusion is based on logical reasoning by: getting different facts to validate or invalidate hypothesis or by confirming a different variable relationship from the proposed topic.

In our case, I analysed the data based on the induction approach by acquiring different facts from interviews, documents, journals and observation to validate the evidence from employees to senior managers and see whether the same fact are repeated in other industries to draw a general conclusion for cost policies or low cost strategy.

In general, the research was analysed in depth from different angles of the industry and richer as I used inductive and deductive approach. As the data were charted and organised from different industries, the researcher started to put together key common characteristics of companies and interpret the data as set for the service sector. Following this concept, companies were grouped based on their sector and explanation provided.

As research evidence was approved from each participant, new issues emerged from the results and they were incorporated into the research. It needs to be emphasised that the experience of research from Albania has helped the researcher to be more prepared for the second case study in Macedonia.

After the Albanian case study, it was felt that the selected research strategy and data collection methods were suitable and helpful in analysing the dynamics and difficulties of the cost policies and low cost implementation procedures. The Albanian case experience proved to be very helpful to improve the skills such as addressing companies and analysing participants' needs, organising interviews, creating industry contacts, collecting and analysing different evidences. Computer software such as NVIVO will be used only if the data process becomes difficult to handle.

The research project ***focused on qualitative research,*** as the main research objectives were to get a deeper understanding of how and why companies implement cost-cutting policies and cost strategies in the service sector. According to (Yin 2009) the qualitative approach is a more a formal way of study as the researcher wants to observe the real situation of phenomenon and he should be closely related with researcher.

As the main research objective is to gain a deeper understanding of cost policies and cost leadership strategy, its research questions are based mainly on key variables that influence costs and not statistical issues; a qualitative approach is more suitable.

In every piece of research, the main dilemma is whether to follow a qualitative or quantitative approach (please see table 4). According to Dawson (2002), the quantitative research is more a statistical approach as it uses large-scale survey through questionnaires and various interviews. This category of research needs to contact more people, it is quicker than qualitative research and the object can be studied on a broad base. On the other hand (Sinkovics, Penz and Ghauri, 2005, p.11) state, "… if we want to have a holistic perspective and want to obtain in depth knowledge about certain objects, the qualitative approach is the most appropriate". The qualitative approach investigates attitudes, behaviour and experiences throughout interviews or group-focused research. It is obvious that fewer people take part and its purpose is understanding and analysing the overall problem, as the findings are not reached by statistical procedures.

According to Wood (1999), the quantitative method concentrates on introducing and testing hypotheses and generalizing research findings from the data, whereas the qualitative method tends to develop a better understanding of ambiguous and multi-dimensional variables through exploratory techniques. It appears that an academic debate existed about which of these research methods is better and more appropriate for research in the social science.

Table 4: Qualitative vs. Quantitative Research

Qualitative Research	**Quantitative Research**
• Focus on understanding • Focus on peoples' views and perceptions • Interpretation and rational approach • Analysis and investigation is done in a natural setting • Process oriented • Holistic approach	• Focus on testing and proofs • Focus on facts • Logical and critical approach • Analysis and investigation is done in a controlled settings • Result oriented • Particularistic and Analytical

Source: Dawson (2002), "Differences between Qualitative and Quantitative Method"

From the table above, we can see that the main difference between two methods is mainly based on the procedure that needs to be followed and it is not an issue of quantifications. Different projects have different research objectives. Therefore, it will be the key factor that will determine which route to follow. Before we choose what type of research is needed for our research topic, it is better to analyse the differences and then choose what strategy is best to follow. Harrigan (1983) and Ghauri and Gronhaug (2010), suggest that both quantitative and qualitative research have advantages and limitations and they can also be complementary. These authors further underline the fact that the choice of research methodology comes as a result of the nature of the problem (phenomena), being studied and there are diverse factors that determine the choice of the research strategy. These include: a) the extent and scope of the existing knowledge in the researched area, b) the research questions, c) authors' skills, time and d) available resources (Robson, 2002). Depending on these factors, researchers may choose either one or both of these approaches.

Researchers in the strategic management field have traditionally relied on the quantitative research method (Gopinath and Hoffman, 1995). Hypothesis testing, statistical analysis and the specification of relationships between variables are often seen as important criteria to determine the importance of research results.

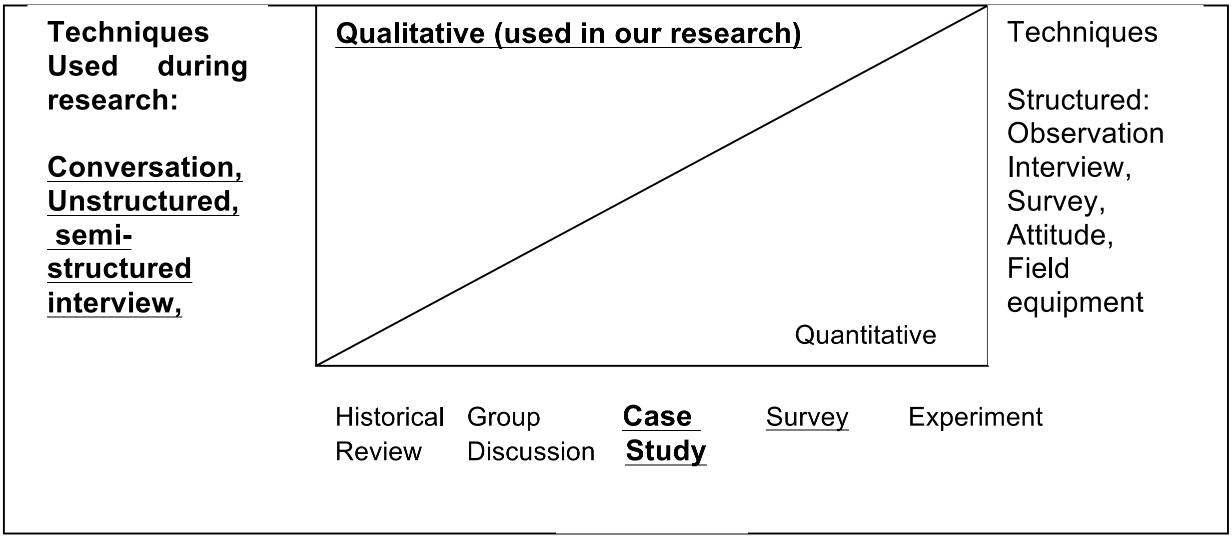
Nevertheless, the quantitative research methods have been criticised for not being able to give in-depth analysis for complex problems and for not giving practical explanation for practitioners such as managers or executives (Bettis, 1991 and Gopinath and Hoffman, 1995).

However, the qualitative method has started receiving more attention over the last 20 years as in depth and exploratory research studies provide explanations and understanding of social and cultural dimensions of researched areas. For example, several research studies, following the qualitative research methods, had a better influence on the management practices (Mintzberg, 1987, Pettigrew and Whip 1991).

According to Maxwell (1997), the following five are the reasons why qualitative methods are very useful: 1) It focuses better on understanding events and people's viewpoints; 2) It understands a particular problem, within a particular environment, and observes the actions within the context; 3) It helps identify unanticipated problem 4) It understands the processes by which experiences and actions take place; 5) Developing casual explanation.

There are different approaches and methods on how companies cut cost and implement a cost leadership strategy, and each approach has different and often contrasting views. In this study, quantitative research techniques would not be able to provide sufficient in depth and detailed information when researching the complex and evolving nature of cost leadership strategy. The main disadvantage of such a method is the lack of replication, validity and the difficulties in coordinating international research teams (Sinkovics, Penz and Ghauri, 2005).

Figure 4: Techniques used during research



Source: Ghauri and Gronhaug (2005)

In order to achieve the research objectives, the researcher will mainly use the **qualitative approach** since the overall aim of this research is to develop a better understanding of how MNCs formulate and implement their low cost strategy in service sector. According to Cassell and Symon (1994, p. 5): "Only qualitative research methods are sensitive enough to allow the detailed analysis of change.

With quantitative methods, we may be able to assess that a change has occurred over time, but we cannot say how and why. Qualitative methods are sensitive to issues of this kind. It is therefore evident that in our study, the qualitative method seems to be the right method for strategy implementation issues. This will be done through the case study approach by using semi-interviewees and by collecting different reports from companies (please see fig. 4).

3.2 Research Strategy

The strategy of research is mainly a general plan on what kind of policies the researcher will implement in order to answer the key project questions (Yin, 2009). The author further mentions that there are three conditions that need to be followed in order to decide what kind of strategy should be implemented (Yin, 2009, please see tab.5):

- The nature of research questions that is presented
- What kind of control does the researcher have over the presented problem or behaviour events
- The degree of current updated information as opposed to historical events

Table 5: Research Techniques

	Form of Research Question	**Requires Control over behaviour events**	**Focuses on current updated information**
Experiment	How and why	Yes	Yes
Survey	Who, what where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes/No
History	How, why	No	No
Case Study	***How, why***	***No***	***Yes***

Source: Yin (2009, p8)

Our main research question begins with "How?" and sub questions mainly start with "why? and how?" ("How do MNCs formulate and implement their low cost strategy in the service sector?"). Therefore, case studies are more interesting when the researcher does not have any control over the events and we address the research topic by answering the questions of "how –is it done?" and "why – is it done?" (Yin, 2009). It is therefore logical to follow a case-study approach and after that explain the main reasons for choosing this method.

3.2.1 Why Case Study?

Brannick and Roche (1997) mention that the explanatory causal research answers the “How” and Why” questions. Therefore, the case study approach is undertaken in this study. It will attempt to explain the “Why” and “How” issues around formulating and implementing cost strategy in the service industry.

On the other hand, the difficulty with the case study method is that it may not directly apply to other cases because it is impossible to generalize the case studies as samples of similar situations. Nevertheless, the main advantage is that it will enable the researcher to have a deeper understanding and knowledge of the phenomenon as they take longer, and it creates an opportunity to direct the observations and planned interactions (Ghauri and Firth 2009). Moreover, when the low cost models take place in international markets there is a need to analyse the research problems in similar market contexts.

For instance, when we see how MNCs cut costs, it is necessary to see how the external, internal and managerial factors influence the strategy formulation and implementation process in similar markets and to see whether changes exist. Therefore, the case study approach will help the researcher to compare how companies formulate and implement low cost strategy in a systematic way in order to understand different dimension and variables of research. It is therefore important to create a case study analysis in order to have sufficient information that explains unique features of each company as well as underline common points for industries while they implement low cost strategy. For the scope and nature of the project, a “multiple case-studies” strategy will be applied as the most appropriate method.

According to Yin (2009), case study research can be used in descriptive, exploratory and explanatory studies. Also Ghauri and Gronhaug (2010) researched this area from business studies mainly when the phenomenon to be studied is very complex and the application of case studies depends on the research problem and objective.

As there was different research on the concepts of strategy formulation and strategy implementation, a research gap existed in the integration of different factors that influence low cost strategy and it was suitable to conduct multiple case study research to provide an understanding of the complex issues.

It is important to develop a theory through a case study design even if the researcher intended to develop or test a concept (Yin, 2009). Otherwise, the researcher could view the case study as “a description of a management situation” (Ghauri and Gronhaug 2010, p.109). Different companies situation were analysed in this study on strategy formulation-implementation factors and external – internal factors. To better achieve this, annual reports, industry analysis and semi-structured interviews, over four years, were studied. Thus, for such a long period, a different case study needs to be analysed to better assess the change and development (Bernard, 2000).

3.2.2 Why multiple cases study?

The use of multiple case studies enables the researcher to investigate studying phenomena through using a repetitive strategy (Lisl, 2006). To follow this strategy, Yin (2003) suggested that repetitive strategy should be conducted in a number of separate places on selected topics.

Yin (2003, p.46) suggested that to “… provide a compelling support to the initial set of proposition”, 6 to 10 cases are required to satisfy the requirement of repetitive strategy. In the mean time, Yin (2003, p.50) states, that “the typical criteria regarding sample size are irrelevant” because the multiple case method is not related to the sample representation that we use in survey process. The sample that we are going to observe should be clearly selected to cover different examples in which the research phenomenon is more likely to be found (Lisl, 2006). For these reasons, we have placed a very ambitious target of analysing six companies in the service industry in two similar markets. We choose two companies from the airline, retail and mobile-telecommunication sectors, because the strategy field has its main roots in competition and it is logical to analyse how the two companies, or the main company, respond in similar business environment in South East Europe and understand whether differences exist.

3.3 Case Selection

3.3.1 Service Industry

There is no formal definition of a multinational company (MNCs) in the service sector, although various definitions of MNCs have been proposed using different criteria. Some consider that a multinational firm is one that is structured so that business is conducted, or ownership is held, across a number of countries – usually more then two countries (Hertner and Jones 1987, Buckley and Ghauri, 2004).

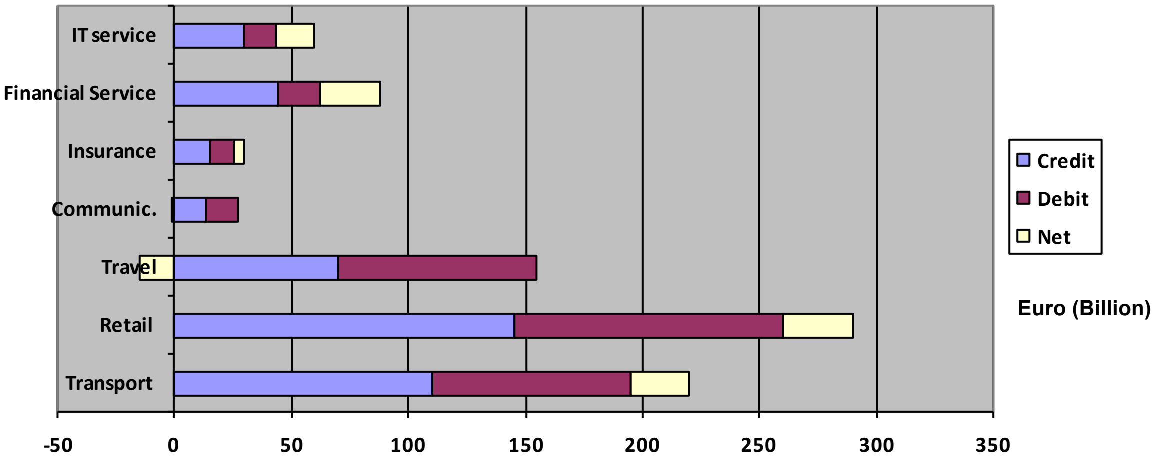
Also, Pitelis and Sugden (2000, p.72) stated, "… a MNC is fundamentally an organisation that extends employment contracts over national boundaries. In other words, their main characteristics are their use of hierarchical methods of coordination to organise cross national interdependences". The existence of different definitions for multinational corporations is not surprising.

There are many different types of multinational corporations and most definitions characterise only a particular type. Because there are so many possible ways in which a corporation can be organised and transact business across national borders, it is indeed very difficult for any one to adequately describe all forms of multinational corporations

The main reason why we are researching MNCs in the service industry is because this sector is rapidly expanding, whereas the manufacturing sector is steadily decreasing. According to Uppenberg and Strauss (2010), manufacturing is declining from year to year in terms of output and employment, whereas the service industry is rapidly increasing. The service sector controls 2/3 of the total output in the European Union (EU); It has the highest employment growth (Uppenberg and Strauss, 2010).

According to Eurostat (2010) the main sectors in terms of international trade in service industry are: transport, travel, communication, insurance, financial and IT services, retail and other businesses (please see Fig.5).

Figure 5: Sector breakdown of EU international trade in service with the rest of the world in 2009 (Billion EUR)



Source: Eurostat (2010, p.86), "European Economics Statistics"

We choose to study two main sectors such as air transport and retail, and one smaller sector such as mobile telecommunication in order to have an overall sample from the service sector. According to Eurostat (2010), the total international trade of European companies with the rest of the world (and *vice-versa*) for 2009 is:

- nearly 200 billion Euro – transport sector,
- more than 250 billion Euro – retail sector (and other sectors)
- round 25 billion Euro – telecommunication sector

According to the United Nations (2011), in the last 20 years, the service industry has experienced a leading position in terms of value adding and employment in most transition economies. There are a number of transition economies where services surpass the 60% share; they are key inputs to all sectors of the economy; contribute to enhancing economic efficiency and facilitating the introduction of new products to the market (United Nations, 2011).

Diminishing profit margins in manufacturing products has put more pressure on companies to find new opportunities in the service industry (Kowalkowski, 2005). As advanced services are more difficult to imitate than products, companies, which successfully implement a strategy, become a sustainable source of competitive advantage (Kowalkowski, 2005).

According to Stare and Bucar (2007), there is a serious need for further research in strategy implementation, especially in the service sector because of low efficiency and modest quality. There seem to be further weaknesses in service industry development, reflecting insufficient competition in service markets, but also weak innovation activity in

different service companies. Kox and Rubalcaba (2007) state that service sector has achieved an important role in modern economies and in different innovative processes. This came as result of technological innovations and corporate restructuring related to business strategy and management of human resources (Boden and Miles, 2000).
As the research objective is to analyse the formulation and implementation of low cost strategy in the service sector, we have to analyse three industries: air transport, retail and mobile-telecommunication. The research is concentrated only on these three sectors as they are more stable markets. The researcher did not consider other services because finance, insurance and IT services are highly volatised due to financial crises and they are difficult to predict. In terms of the world market the air transport sector is one of the main service industry which generates more than 600 billion $ (400 billion Euro a year) (European Commission, 2006).

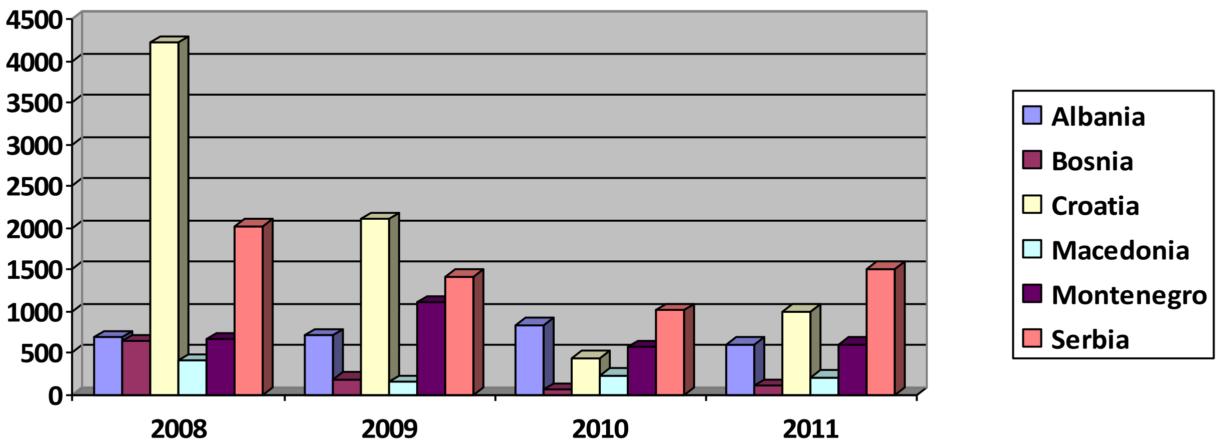
However, the retail sector generates $500 billion (Gauri, Trivedi, Grewal, 2008) and mobile telecommunication generates $742.2 billion (IDAT, 2009). According to Booz Allen Hamilton (2004), service companies with low cost business models are going to have 40% of total market share in Western Europe. If we refer to the airline business, Ryanair and EasyJet have successfully implemented low cost business strategies by limiting service at a price that was attractive for the mass consumer group.

In addition, other companies from the mobile telecommunication and Internet sector could implement low cost business strategies and, as a result, they could shift the market structure significantly. It is clear that consumers have a wider selection now, and they are encouraged by companies to save during the consumption stage (Booz Allen Hamilton, 2004). As a result, the overall market has started to grow once companies implemented low cost strategies. Companies, which follow this strategy, tend to restructure the “rules” of the industry and create more efficiency.

3.3.2 South East Europe

With the fall of Communism in the Eastern European countries, there has been strong research interest in the role of foreign direct investment (FDI) and MNCs in the economic restructuring process and technological catch-up (Giround, Jindra and Marek, 2012). Compared with different developing countries, Eastern European economies began with an existing industrial formation and reasonably educated workforce (Giround, Jindra and Marek, 2012). The Foreign Direct Investment (FDI) has fluctuated in South East Europe in the last four years due to the financial crises (please see Fig.6). According to The Vienna Institute for International Economic Studies (2012), the average FDI inflow per country is around 600 million Euros in 2011, except Croatia and Serbia, more than 1000 million Euro as they have slightly more advanced economy and greater population.

Figure 6: FDI Inflow in Southeast Europe (EUR million)



Source: The Vienna Institute for International Economic Studies (2012, p.3), “Diverging patterns of FDI recovery in Central, East and Southeast Europe”.

Albania and Macedonia are a good sample of population as it consists of similar dynamic markets, with similar market size and population and average income per capita round 7000-8000 Euros (please see tab. 6). The reason that we have two similar countries is to see how present companies formulate and implement their low cost strategy in similar markets situations.

Table 6: South East Region: Facts and Figures 2010

Country	Population (million)	GDP %	GDP per Capita (EUR)	Annual Inflation
Albania	**3.2**	**3.6**	**6800**	**3.5**
Bosnia	3.8	0.7	6500	2.1
Croatia	4.4	-1.2	15100	1.1
Kosovo	2.1	3.9	5080	4.7
Macedonia	**2.1**	**1.8**	**8600**	**1.6**
Montenegro	0.6	2.5	10200	0.5
Serbia	7.3	1.8	8500	6.8

Source: Galgoczi B., Sergi, B., (2012, p.6), "Social and economic trends in Southeast Europe", European Trade Union Institute, ETUI, Brussels

The majority of previous research, (except Cavusgil Ghauri & Agarwal (2002) and Brouthers & Bamossy (2006) is organised in developed economies leaving plenty of room for researching in Eastern European markets. According to Buckley & Ghauri (2004), the current trend amongst MNCs from the West is to be engaged in the global market, especially in emerging markets such as Eastern Europe, where the investment cost and market potential are becoming more interesting from year to year. MNCs will be particularly chosen in South East Europe, not only for their significant presence in the global industry, but also because: a) the above factors tend to have different influence on different markets and b) it is suggested that these firms are likely to employ more sophisticated management practices than the other local companies.

As business trade has dramatically increased between West and East, in the past 20 years, most academicians continue to see it as a global economic phenomenon, leaving plenty of room to analyse the market difference in cost implementation strategies, especially in the service sector. In addition, international companies are seen as an appropriate sample of organisations believing that they provide interesting research opportunities because of their specific operational and strategic characteristics (Buckley and Ghauri, 1999).

The economic and political changes in Eastern European markets after the 1990s and the integration process of South East Europe region towards EU has radically changed the airline, retail and mobile telecommunication industry. The geographical location of these countries, close to European Union markets, and fast privatisation processes showed a great success for MNCs. Similarly, according to Mallick and Marques (2012), emerging markets started to liberalise their economies. They have been taking up an increasingly large share of world markets. It is therefore important to see whether MNCs are implementing low cost strategy to increase their market shares.

In such a dynamic market as the service sector, the low cost model in airline and mobile-telecommunication is changing from year to year due to changes on costs (rise and fall of oil price), regulatory laws from the EU and domestic countries, and increase in competition. Also, companies' strategy, are similar due to regulatory procedures from EU or due to changes of law as result of EU integration. For instance, Albania and Macedonia are not EU members, but they are expected to become members of the EU in 2018-2020. These political changes also have economic consequences and, as a result, many regulatory laws will influence the formulation and implementation strategy of companies, especially in airline and telecommunication, which are the most regulated sectors of economy.

3.3.3 Airline Industry

The air transport sector is one of the main service industries, where European air transport alone generates 120 billion Euros every year and employs more than three million people, representing 30% of worldwide market share (European Commission, 2006).

The EU integration process expanded in 2004, and all new member states experienced an increase in air transport by 10% in 2005, whereas the low cost airlines has dramatically increased and they account for 20-30% of the European market share (Bryan and Garnier, 2007). The rise of low cost airlines in the EU is one of the key developments in the air industry since the liberalisation policies of the 1980-90s. The rise of a new business model based on cost leadership strategies such as Ryanair and EasyJet are becoming the icon of air transport industry with the highest profit margins in industry (Bryan and Garnier, 2007).

They have changed the competitive dynamics by focusing on cost leadership, offering minimum customer service, automatic reservation, point to point flights, frequent flights, standard airplanes with the B-747; flying to secondary airports to keep taxes down; keeping low operating costs, short turnaround period in airport; creating low cost philosophy in company; creating a brand – value for money and focus on growth (Pirr and Brawn, (2001), Dobruszkes (2006).

The researcher will focus on low cost airlines because they are the most successful sector in the air transport industry, and they are seen as the most active companies to have successfully gained from cost leadership strategies. However, according to Klophaus (2005) the new market entrants from local countries, with similar strategies, will not guarantee a continuous competitive advantage. Therefore, we have good reason to analyse the strategy dynamics in this particular sector as the industry has changed dramatically in the past 20 years; the market is expanding due to new integration processes; new European policies are implemented; the market is more liberalised. Therefore, it is necessary to analyse the key feature of competition based on low price policies by keeping costs down and seeing how companies react in such conditions.

Also, the low cost airlines and airline companies are very similar. Considering their cost reduction policies and targeting companies, which have similarities in cost structure policies will help us understand whether the economy of scale (from the business model) is a key factor, which guarantees the low cost advantage or it is the efficiency of company which leads to competitive advantage. Finally, the main research question is “How MNCs implement their Cost Leadership Strategies?” Therefore, it makes sense to analyse different sized companies that implement such strategies in similar markets, so the research is valid not only in a particular case, but it also applies to all companies.

3.3.4 Retail Industry

The reason that the researcher chooses to study the supermarket – retail sector is that it represents one of the main industries, with annual sales of $500 billion in the world market (Gauri, Trivedi, Grewal, 2008). This sector is described as highly competitive between international and local companies through operating appropriate strategy for the market success (Gauri, Trivedi, Grewal, 2008).

One of the most common things between supermarket stores is that they use multi-format strategy, known as “hybrid strategies” by using different brands or products to target different customer segments (Levy, Dhruv, Praveen and James, 2004). It is therefore important to see whether companies in other service industries that use both strategies find it difficult to implement cost leadership.

As the GDP increases, consumer spending is rising in all the South East European countries. For example, in Romania consumer spending has increased by 70%, whereas in Bulgaria by over 50% from 2000 to 2005 (Schwenker and Bernardo, 2009).
Another good reason for analysing the retail sector is that the companies are heavily competitive in this industry due to their ambitions for a global presence; speedy product life cycles and changes in customer preferences continue to transform many companies strategy (Tapscott, 2008). Therefore, it is necessary to analyse whether there is a difference between the retail, airline and mobile telecommunication industries, and how different companies implement their cost leadership strategies.
Countries such as Albania and Macedonia are considered relatively small in terms of population/incomes, and the retail sector tends to be very fragmented compared with those of Greece or Bulgaria (Kiriakov, 2006). The research will cover three main companies in two countries that are involved to create a good analysis whether our model is valid not only in airline, but also in retail industry. In the beginning, the analysis will start with Albania and then with Macedonia.

3.3.5 Mobile Telecommunication Industry

Mobile telecommunication is becoming one of the leading services in the world economy. According to a report by the ITU (International Telecommunication Union, 2008) there are 4.1 billion mobile phone subscribers in the world, one billion more than in 2002. One of the most recognised business consultancy companies, IDAT, estimated that the general turnover of mobile services is $742.2 billion, which represents 54% of the telecom service market (IDATE, 2009). Like the airline industry, the key driver for the growth of mobile telecommunication was market liberalisation, which introduced new competition by lowering prices and making it more affordable for the mass market (ITU, 2009).

Gruber and Verboven (2001:1, 2001:2) did some serious empirical research, for the telecommunication market, mainly by analysing the diffusion speed of mobile telephone services through linking technology with the competition level of the market. They concluded that there is a positive correlation between these two variables, but the speed of distribution is different in each market due to the economic growth, infrastructure, government policies and technology infrastructure. In addition, they emphasised that the technology is more important than competition for the diffusion of mobile services. Other researchers, such as De Bill and Peitz (2002), or Laffont and Tirole (2001), looked at how the competition and regulatory policies are transforming this new industry. In addition, Schejter (2005) carried out research on regulatory policies in the Israeli market and concluded that licensing of mobile providers has shifted the focus of the public interest towards corporate-government interest. Therefore, it is clear that most of the research has been focused mainly on: innovation topics such as diffusion of technology, or governmental policies such as, liberalisation, licensing and markets structure, leaving plenty of gaps in literature review by not explaining how the companies are cutting costs and whether they are starting to compete based on the low cost strategy.

Furthermore, the global economic crisis of 2008-2009 is having negative impact on mobile phone services, and the rapid rate growth of 2001 is not likely to happen in the next few years (IDATE, 2009). In such a difficult business environment, the researcher wants to analyse whether mobile companies will start to formulate and implement low cost strategy and how they will implement such policies. In addition, if we compare the mobile with the aviation industry, we could see that the market structure of mobile sector is mainly oligopoly with 2-4 providers, who dominate the market, and companies are more flexible to adjust the market demand with the technological capacity. On the other hand, companies in aviation and the retail industry are facing tough competition between companies and they are focusing more on costs. The researcher will analyse two companies in each country (Albania and Macedonia) to better understand low cost strategy in mobile sector and whether companies from other service sector have started to use cost leadership model or they follow this strategy only when industry enters the maturity phase.

3.3.6 Albania Airlines and Swiss Airline

In Albania and Macedonia there are more than 10 foreign airline companies: (Austrian Airlines, Alitalia, British Airways, Malev, Turkish, Olympic, Lufthansa, Jat Airlines, Adria Airways, Club Air, Alpi Eagles and Hemus) and the three local airline companies are: Albanian Airlines, Belle Air and MAT that operate in Albania and Macedonia (Alb Invest 2008, Macedonia Travel Bureau 2010). In 2004, the Albanian government gave the only international airport to a German company, Hochtief, with consortium agreement for a 20-year period. The company paid 21 million Euros and invested 82 million Euros in a new terminal. As a result of such investment, the number of passengers increased from

560,000 in 2003 to 900,000 in 2006, and it is predicted to increase to 1.5 million in 2009 and 3 million by 2016 (Jentsch, 2007). Likewise, in 2008 the Macedonian government gave their two international airports to a Turkish company Tepe Akfen Ventures with consortium agreement for a 20-year period. The company paid 30 million Euros to the government and they will invest 170 million Euro for new terminal and infrastructure for Skopje and Ohrid airports (World Bulletin, 2010). In 2008, the number of passengers carried by Skopje airport was 652,815 passengers (Macedonia Travel Bureau, 2010) and the company is planning to expand over one million passengers in the next five years.

Albanian Airline

Albanian Airlines was privatised in 1997 and now the Kharafi Group of Kuwait owns it. The company has a 40-million Euro annual turnover, 165 staff and a fleet of three medium sized planes; it is one of the smallest airlines in the region. They operate in 10 European destinations and account for 30% of all scheduled departures from the country (Jentsch, 2007).

Swiss Airline

Swissair went bankrupt in 2001 due to a heavy competition and business environmental difficulties that characterised the airline industry in that period. In 2006, Lufthansa Group bought the company and now it is member of the global Star Alliance. The company has gone through huge cost restructuring programme, but still they provide quality air service (Swiss, 2010). In 2009, the company had 7496 employees. It carried more then 10 million passengers, and generated round 140 million Euro of operating profit; it is flying in 39 countries including the Macedonian market (Swiss 2010:1).

The reasons for analysing two companies are:

- Albanian Airline is a local company and they are at their introduction phase of the business cycle, implementing low cost strategy, whereas Swiss Air adapted new cost structured policies after 2006.
- Albanian Airline and Swiss Air still try to differentiate its company by giving some extra services on board, but its focus is on low cost policies.

- It is very wise to observe how the local low cost airline competes with big established players such as Swiss Air, Austrian Airlines, Alitalia, British Airways, Malev and Lufthansa. This will enable the researcher to understand whether targeting a wide customer group is a determining factor, or it is economy of scale that will enable them to survive in the near future. It will also enable the research to better understand whether small-sized companies can become more successful by implementing low cost strategy compared with big established players that have only low cost policies.
- Air traffic is going to increase in both markets and it is worth analysing whether this growth will be associated with the growth of low cost airline from small-sized companies or this growth will be gained from big-sized companies that have cost cutting policies.
- Given the fact that there are over a million Albanians and Macedonians who work abroad, rapid economic and tourism development, tripling forecast of air traffic over the next decade seems a good reason to analyse how airline companies will compete in the new market conditions.

3.3.7 Euromax and Ramstore

Supermarket retail in Albania and Macedonia is in its early stages and is characterised as very fragmented, with only five medium-sized retailers covering only 20-30% of the market (European Bank for Reconstruction and Development – EBRD, 2009).

The idea of superstores new to Albania, where, in 2005, Euromax (Albanian company) opened the first 4000 m2 hyper-market offering 14,000 products and implementing a centralised IT supply chain (Kiriakov, 2006). The company started to expand mainly in the capital city of Tirana with more than 6 express stores in Tirana, and 3 medium-sized stores in other cities. As many regional retail companies showed interest in the company, in 2008 the company was sold to Delta Group (Serbian) for 40 million Euros (Interview with staff A9). As the supermarket chain is in its early stages, and once Euromax was heavily expanding in the market, other foreign companies such as Mercator showed interest in entering the market and in 2009, and they opened the first Super Store in Tirana mainly with domestic and Slovenian products (Mercator, 2010). From the researcher's observation, both hyper-stores carry similar products, but due to their size and presence, Euromax is the leader and Mercator the follower. In this case, the primary data collection will be very crucial and the researcher experience in Albania retailing will be very helpful (to arrange meeting with company managers). Whereas in the Macedonian market in 2005, the international retail chain, Migros Turk, opened the Ramstore Mall in Skopje and the Ramstore supermarket chain, investing 20 million euro (Seenews, 2010). The company has around 200 stores in Turkey, Bulgaria, Macedonia, Russia, Azerbaijan and Kazakhstan (Migros, 2010). In 2006, the Ramstore, opened its second store in Tetovo and two more stores in Skopje – with a net sales area of more than 6,000 m2; in 2009 the company had sales of about 22 million USD (Migros, 2010). Therefore, one of the reasons why I chose these three companies was that they are the main international supermarket stores that are operating in South East Europe. Secondly, all companies have huge ambitions to expand, where Mercator and Ramstore focus on quality products from Slovenia and Turkey (Slovenian chain) and Euromax is expanding by squeezing suppliers even harder through lowering prices and by marketing their products as the cheapest chain. It is a wonderful experience to see how such companies are implementing the low cost strategy while they are expanding and competing for more market share.

3.3.8 AMC (Deutsche Telekom) and VIP Mobile

AMC

Albania Mobile Communication (AMC) was the only operator in the Albanian market in 1996 and in 2000 it was privatised by Cosmote group (Greek company that was subsequently bought from Deutsche Telekom). The company has more than 50% market share, 1.3 million subscribers, with an annual turnover of 176.2 million Euro in 2007 and with more than 500 employees (AMC, 2009).

VIP Mobile (Telekom Austria)

VIP mobile has operated in Macedonia, as its third rank company, since 2008. It is part of Telekom Austria, which has round 20 million customers in eight countries, mainly in South East Europe (Vip, 2010:1). As a third player, VIP competed with other companies mainly with better prices and simplified products, which enabled the company to increase its market share from 10.7% in 2008 to 16%, in 2009 (Vip, 2010). Due to their attractive offers for prepaid and contracts customers, the company gained more than 300,000 subscribers within a year and 21.7 million Euro of revenue (Vip, 2010). The main reason for choosing these four companies is that AMC and VIP are both MNCs and they are very active players in Albania and Macedonia. VIP mobile has entered the market lately and within a year they have gained more than 12% of the market share. In such competitive circumstances it is worth analysing whether Vip Mobile were successful because they operated efficiently compared with other mobile operators or they are simply lowering the prices and gaining less profit than T-mobile. Therefore, it is not clear yet whether the company used low cost strategy or differentiation strategy.

The second reason for choosing these two main companies is that they both (AMC and Vip-Mobile) came as a result of the market liberalisation processes and there are changes in leadership, changes in management level and organisational structure. The reason for not including the second provider, Vodafone and One Mobile in our case study is that these companies have not used many cost structured policies and they have not compete directly with prices. The third reason is that AMC and VIP have similarities in terms of management, structure, market presence and financial figures. Finally, this similarity between market leaders and new entrants has provided more reliable for the research and valid information as the comparison is done in very similar samples.

Table 7: Summary of Case Studies

Cases	Turnover	Strategy	Service Sector
Albania Airlines	40 million Euro Turnover	Differentiation and Low Cost Strategy	**Airline**
Swiss Air	140 million Euro Net Profit	Differentiation and Low Cost Strategy	**Airline**
Euromax-AL	21 million Euro Turnover	Low Cost Strategy	**Retail**
Ramstore	22 million Euro Turnover	Differentiation and Low Cost Strategy	**Retail**
AMC Albania-Deutsche Telekom	176.2 million Euro Turnover	Differentiation and Low Cost Strategy	**Mobile**
Vip Mobile - Telekom Austria	21.7 million Euro Turnover	Low Cost Strategy	**Mobile**

Source: Case Study Summary from Methodology Chapter

3.3.9 Selection Criteria of Companies

As the research objective is to analyse how companies formulate and implement low cost strategy in the service sector, we have to analyse three industries: air transport, mobile-telecommunication and retail. According to the United Nations (2011), in the last decade, the service industry has dramatically increased in terms of value adding and employment in most emerging markets. According to Stare and Bucar (2007) there is a serious need for further research in strategy formulation and implementation especially in service sector because of low efficiency and modest quality. While the researcher chooses his topic, the sample needs to be strategic and the case studies should be carefully, an not randomly, selected (Mason, 2002). When the researcher decided to analyse how MNCs formulate and implement their low cost strategy in service sector, extensive reading in service sector was done, in order to understand which the main industries are in terms of growth and revenue. Also, a particular focus was placed on literature review to better understand key variables that influence on strategy field especially on low cost strategy. So, the selection of main companies was based on the following characteristics:

- Companies have to come from the main service industries because the research question is based on this sector. The thesis is researching the service industries in two similar markets.
- The company needs to operate in more than two countries.
- All companies should use some cost structure policies. They should follow cost strategy or they should implement cost-cutting policies.
- Each case study should represent similar market type in terms of size; income and environment, in order to understand better how company size, business environment and market structure influence companies in formulation and implementation procedures. It is very interesting to see whether Deutsche Telekom Company uses low cost strategy or cost reductions policies in all South East Europe and how do they use it.
- All companies should have a turnover above 10 million Euro in order not to consider them as small businesses. Main companies should be public companies with official reports or websites.
- Each service industry should have a minimum of one or two companies. This will enable the researcher to better understand whether the change of strategy has played an important role in dominating the market.

Table 8: Multiple Case Study: The list of companies' names for the interview are given below

Cases	Service Sector	Research Focus on these companies:
Albania Airlines	**Airline**	**External Factors**
Swiss Airline	**Airline**	External Environment needed to achieve the Cost Cutting Policies or Low Cost Strategy: Market Environment Competition/Macro Economics.
Euromax	**Retail**	
Migros Turk (Ramstore Chain)	**Retail**	**Internal Factors:**
AMC (Deutsche Telekom)	**Mobile**	Operational efficiency that is needed to implement low cost strategy Operational efficiency in day to day activity Technology utilization Eco of Scale Wide customer group, Sensitive clients towards price
VIP Mobile (Telekom Austria)	**Mobile**	**Formulation and Implementation Policies:** Formulate the right strategy based on present industry conditions. Identify risks, opportunities planning and resource allocation needed for strategy formulation. Goals and plans that needed within company capabilities and formulation processes to implement low cost strategy. Management level that is needed to implement the cost leadership: Leadership role in implementing cost leadership strategy Middle Management role in implementing cost leadership strategy Value for Many Philosophy from Team Working to clients

3.4 Research Approach and Techniques for Data Collection

Ghauri and Gronhaug (2010) state that the advantage of primary data is that it is useful for a specific project. Opinions and personal experiences can be analysed through asking questions of the people involved. It is clear that the data will be collected mainly through the qualitative method as the essence of problems derives from words and not from numbers. According to Ruyter and School (1998), the qualitative method tries to find the meaning, and give a clear picture in a holistic context.

Therefore, the author used two types of primary research: interviews and observation; secondary research: journals, industry news, governmental reports and different types of factual documents. According to Denscombe (2007), qualitative facts are in spoken or written form.

Primary data consist of annual reports, government statistics, field research; company documents (Saunders, Lewis, and Thornhill 2009). In this study, different company reports from all three industries were used. In addition, semi structured interviews and direct observations were done at all company premises, not just by interviewing, but also by observing the environment that they were operating. The emphasis was on the external-internal factors and different managerial practices that were formulated and implemented by companies in the past five years.

This enabled the researcher to have an enhanced understanding of the service industry dynamics in the airline, mobile and retail sectors. Also by doing this, he observed different factors and change processes that companies were using to implement successfully their strategy and to understand their difficulties. It was therefore to our advantage to use interviews and annual reports as it allowed us to get reliable results and a better understanding of the research problem. Likewise, according to Ghauri and Gronhaug (2010), the secondary data are valuable in solving, understanding and explaining the research problem. Each method of data collection, such as documentation, archival records, interviews and direct observation, has its strength and weaknesses (Yin 2003) (please see table 9).

Table 9: Data Collection Method

	Strength	Weaknesses
Documentation	- Stable (can be viewed repeatedly) - Exact (contains exact names, reference and details of an event) - Broad (coverage long span of time, many events and setting	- Reliability – (can be low) - Biased selectivity, (if collection is incomplete) - Reporting bias – (reflects bias of author) - Access – (may be deliberately blocked)
Archival Records	- Same as above for documentation - Precise and quantitative	- Same as above for documentation - Accessibility due to privacy reasons
Interviews	Targeted – focused directly on case study topic Insightful – provides perceived causal inferences	- Bias – due to poorly constructed questions - Response bias - Inaccuracies –due to poor recall Reflexivity – respondent gives what interviewer wants to hear
Direct Observation	- Reality – covers events in real time - Contextual – covers context of event	- Time consuming - Selectivity – unless broad coverage - Reflexivity – event may proceed differently because it is being observed - Cost – hours needed by human observers
Participant Observation	- Same as above for direct observations - Insightful into interpersonal behavior and motives	- Same as above for direct observations - Bias due to investigator's manipulation of events
Physical Artifacts	- Insightful into cultural features - Insightful into technical operations	- Selectivity - Availability

The main feature of this method - is the development of detailed intensive knowledge about a single case or a small number of related cases (Robson, 2002).

3.4.1 Interviews

As it was suggested by Yin (2003; 2009), the researcher used interviews to collect data as they focused directly on the research topic and, what is more important, interviews provide insightful technical operations for the research problem. The purpose of interviews is to find out how managers and employees formulate and implement low cost strategy in their organisation.

The researcher chose to interview senior managers, middle managers and employees, as during the implementation process strategy policies tend to go through three different layers within the organisation. Kauer, Waldeck, Prinzessin and Schaffer (2007) studied the strategy and the structure of senior managers and middle managers on strategic decisions by using the multi-case study approach in 46 companies in Germany, mainly from the finance industry and manufacturing to better analyse their strategic decision-making process. Their study concluded that in order to successfully implement strategic decisions, companies should build diverse teams with different personalities and professional background with senior managers, middle managers and different employees to be able to balance strength and weaknesses within the team.

Mason (2007) confirms that during formulation and implementation senior managers need to involve employees, middle management to delegate them closest to the customers and to use cross-functional teams, so the strategy becomes a test /error process, developing through the discovery of what works. Strategic failure resides with a lack of people involvement (Beer & Eisenstat. 2004), seen for example in the strategies adopted by both Enron and Marconi, whereby employees became detached from the organisation.

For these reasons, all Interviews were organised with employees, middle and senior positioned staff of the organisation to see: how the low cost philosophy is implemented from top to bottom of the organisation; to understand better the actual situation of the companies; to see what kind of practices are followed by the organisation as the implementation process is done from employees and middle managers rather than the top executives; to see whether employees could handle new cost policies and to what extent they could follow them. The interview questions were formulated in such a way as to answer our research question and they were constructed in relation to the strategy implementation process.

According to May (2002) there are three types of interviews: structured, unstructured and semi-structured. During the structured interview, usually the questions are determined ahead of time (Mason, 2002). The main drawback with this approach is that the researcher could make the respondent experience uncomfortable environment and the real feeling of the interview on a particular problem is lost (Keats, 2000). On the other hand, the unstructured interview is completely the opposite, without any structured outline, new questions arise as the process continues. Finally, the semi-structure format is a hybrid of these two types, where the researcher has some degree of standardization to ensure that key issues will be covered and depending on new issues, the researcher could make new questions to get more information on a particular problem (Mason, 2002).

Semi-structured, in-depth interview was conducted, where the researcher asked specific key questions from a set of skeleton questions. The author prepared open-ended questions in order to gain more alternatives from a specific result during the interviews. In addition, it enabled the researcher to better understand how and why companies used low cost strategy and received a broader picture about the raised issues.

The researcher prepared in advance the question area that he was going to use in a structured way. Based on how the interview was organised, it was different, depending on each case. According to Mason (2002), this technique requires lots of preparation and sound knowledge about the topic, to get more information from the newly raised issues. All the information that arose from the interview was used to answer the research question and according to (Keats, 2000), the formulation of the research questions was a very important task.

During the interview, open-ended questions were used. The reason for that was to create more freedom and choice to managers when answering the questions, but I always considered the theoretical foundation of the research problem. In order to ensure that all given answers could be effectively analysed, all questions were consistent, open, and non-bias and they followed a logical structure. All the interviews were recorded and the interviewer was informed ahead to explain the main reason of such procedures. This will help the researcher to examine more easily all the raised issues and deeply understand them (May 2002).

The key informant interviews were used as a data-collection tool for this project. Bernard (2000) argues that key informant interviewing and questionnaires work well in the project when the researcher is dealing with managers and elite members of community who are chosen based on their characteristic specialised knowledge.

3.4.2 Procedures

According to Yin (2003), 6 to 10 cases are required to satisfy the requirement of repetitive strategy to provide a compelling support to the initial set of proposition. For the purpose of the study, the interview target was very ambitious if we consider the fact that we have 6 companies (2 from the airline industry, 2 from retail industries and 2 from mobile-telecommunications). The researcher organised 3-5 recorded interviews with each company, mainly senior managers, middle managers and employees. Usually, senior and middle managers are those that control the resources, activities and business processes that are crucial in enabling strategic success and sometimes they have conflicting interests during strategic implementation with employees (Kim and Mauborgne, 2002). Each interview was approximately 40-60 minutes and every interview was associated with a detailed transcript protocol. After fulfilling the empirical information, the final answers were sent back to the interviewer to make sure that no ambiguous or deceptive information is used for the research. First, the informants were asked in advance via email or post and then, if they had time, an interview was conducted. There was given the list of the names of the interviewees, their occupation.

Disadvantages

The main disadvantage of the interview method was that it took a long time and effort to compile all the data. In addition, the quality of the information gathered could be questionable to some extent because personal incentives and perceptions can affect the answers (Yin, 2003).

3.4.3 Documentation

During the research, different documents, such as business reports, notes, market research, journals and industry news, were reviewed to understand the cost policies and low cost strategy better. Saunders (et al 2009), Yin (2009) stated that there are several advantages of documentations: stable, exact, and broad coverage of raised issues. To reduce the main drawbacks for documentation method, all documents were accessed from reliable independent institutions such as government reports, independent market research, industry news and official business reports. By combining documentation with different interviews, it enabled the researcher to have a better analysis and more reliable data.

3.5 Data Collection: in Albania and Macedonia

Multinational companies operate in different markets, countries and industries. The formulation and implementation procedures of low cost strategy had to be analysed to better understand how it is done, and why it is done. As illustrated below, the investigation of the Albanian and Macedonian market was completed by following Yin's (2009) suggestions that, in order to have good validity of data collection, the researcher needs to have: a) multiple source of evidence, b) chain of evidence and c) feedback to key informants.

Different companies from airline, retail and mobile sectors were identified based on their size, revenue and selection criteria. Business reports, market research, and industry information were used to identity key service companies. So, based on secondary research the researcher identified the main companies were to participate in the research. The establishment of appropriate and comparable data collection techniques is a crucial element of rigorous scholarship, as it can minimise threats to validity and reliability of gathered data (Chidlow and Ghauri, 2011).

The main companies were identified with the assistance of relevant personal networks from the Faculty of Economics, business conferences, relatives, and through approaching the Albanian Chamber of Commerce and the Macedonian Chamber of Commerce. Hundreds of companies have constantly updated their contacts through these institutions.

The researcher selected companies that are market leaders in their sector for South East Europe and new companies that have just entered the market. "When elements of a research design have the same meaning, they can apply in the same way, in different cultural contexts." (Hult, Ketchen, Griffith, Finnegen, Padron, Harmancioglu, Huang, Talay, and Cavusgil 2008, p.1028).

Once participants were identified, the researcher contacted them electronically through their human resource (HR) department and explained to them the relevant information about the research. The HR department enabled him to gain the personal email addresses of each participant.

There was no pressure on lower level staff to participate in the interview as the HR department introduced this research to them and it was up to them to decide whether they wanted to participate in the research. Then, the participants were asked in advance via email to participate in the research and if they had time, an interview was conducted. See Appendix 2 for the formal email used to approach a "gatekeeper".

When he formulated the recruitment letter, he wanted to be formal to take away any doubts over the validity or legitimacy of the research. Individuals who wanted to take part in the research were invited to propose a date or time that was suitable for them.
The researcher aimed to recruit participants from employees to senior management level. They were mainly directors or managers of the company, who were in charge of their department, and employees within the department. The reasons that was done in this way was because they were responsible for the strategy implementation process and this would enable the researcher to gain a good understanding of how companies implement the cost strategy from the director to the low positioned staff.

3.5.1 Data Collection Approach

According to Chidlow and Ghauri (2011, p.6), "…researchers are encouraged to use a mix-method approach for gathering data to give a static and dynamic picture of research sites".
The researcher spent a considerable amount of time with different directors, by organising in depth interview, to better understand how their company formulates and implements low cost strategy and cost policies from management perspective, as this was the main research objective. Different appropriate documents, such as manuals, internal newsletters and company reports, were collected as well. The data was collected in 6 companies from the service sector (3 companies in Albania and 3 companies in Macedonia) (2 airlines, 2 retailers and 2 mobile telecommunications). 23 interviews were organised in total, (13 interviews in Albania and 10 interviews in Macedonia). All interviews were organised with businesses, and only 3 interviews with government officials (please see Table 10).
These interviews, combined with secondary data, allowed the researcher to triangulate the information received and check for accuracy in historical and current information (Miles & Huberman, 1994). Many senior managers such as Head of HR, Head of Marketing, Head of Operation, middle managers, employees and specialists have been interviewed (Please see table 10)

Table 10: People that were interviewed

Nr	Service Industry/country	Management Level	Department	Interviews Anonymity
1	**A – Airline** (Albania)	Senior Manager	Head of Marketing and IT Department	A1
2	**A – Airline** (Albania)	Senior Manager	Head of Operations	A2
3	**A – Airline** (Albania)	Employee	Operational specialist	A3
4	**S – Airline** (Macedonia)	Senior Manager	Director	M1
5	**S – Airline** (Macedonia)	Middle Manager	Head of Operations	M2
6	**S – Airline** (Macedonia)	Employee	Operational specialist	M3
7	**EM – Retail** (Albania)	Senior Manager	Head of Non-Food Department	A6
8	**EM – Retail** (Albania)	Middle Manager	Head of Logistics	A7
9	**EM – Retail** (Albania)	Middle Manager	Head of Retail Store	A8
10	**EM – Retail** (Albania)	Employee	Finance Specialist	A9
11	**RAM – Retail** (Macedonia)	Senior Manager	Head of Marketing Department	M4
12	**RAM – Retail** (Macedonia)	Middle Manager	Store Manager	M5
13	**RAM – Retail** (Macedonia)	Employee	Assistant of Marketing Director	M6
14	**AM – Mobile** (Albania)	Senior Manager	Deputy Director of Marketing	A12
15	**AM – Mobile** (Albania)	Senior Manager	Head of HR	A13
16	**AM – Mobile** (Albania)	Employee	Pay-roll specialist	A14
17	**VM – Mobile** (Macedonia)	Senior Manager	Head of Control and Bus. Strategy	M7
18	**VM – Mobile** (Macedonia)	Middle Manager	Communication Manager	M9
19	**VM – Mobile** (Macedonia)	Employee	Marketing Specialist	M11
20	**VM – Mobile** (Macedonia)	Employee	Store Manager	M12
21	**Telecommunication Watchdog** Albania	Government Official	Head of the Telecommunication Watchdog	A18

22	**Government of Albania**	Government Official	Ex-Finance Minister	A19
23	**Airline Watchdog** Albania	Government Official	Director of Civil Aviation Agency	A20

In order to keep the anonymity of all companies, I will give random names for all MNCs to maintain the privacy of participants (please see table 11).

Table 11: Anonymity of Interviews

Cases	Turnover	Strategy	Service Sector
“A Airline”	40 million Euro Turnover	Differentiation and Low Cost Strategy	**Airline (Albania)**
“S Airline”	140 million Euro Net Profit	Differentiation and Low Cost Strategy	**Airline (Macedonia)**
“EM Retail”	21 million Euro Turnover	Low Cost Strategy	**Retail (Albania)**
“RAM Retail”	22 million Euro Turnover	Differentiation and Low Cost Strategy	**Retail (Macedonia)**
“AM Mobile”	176.2 million Euro Turnover	Differentiation and Low Cost Strategy	**Mobile (Albania)**
“VM Mobile”	21.7 million Euro Turnover	Low Cost Strategy	**Mobile (Macedonia)**

3.5.2 Data Collection at Operational and Employees Levels

As it was easy to reach, three companies’ operations and logistics were visited in Tirana and the other three were visited in Skopje (please see table 11). Many interviews were organised with specialists and employees. They were selected because they were involved in different implementation processes. Moreover, they tend to know more about managerial difficulties as they are in the frontline of the implementation processes. The researcher spent 2-3 hour every day in different operational units to understand better how they work and how things are done in each company. As all companies were in the service sector, the common ground for all companies was that they all wanted to serve their clients. I also informally approached different suppliers and customers from retail, mobile and airline sectors to better observe the main formulation and implementation activities that are involved. This helped the researcher to be more prepared with interviews and to ask specific questions that were appropriate to low cost strategy. In addition, many appropriate documents and reports were collected from different participants. Some of the interviews with employees were not planned because they emerged during the research process with gatekeepers. They advised that there is no need to make pre-arrangements with them, rather they should be informed just 1 hour in advance of the interview. What is important is that, they all agreed to participate. The researcher had to familiarise himself with these circumstances and he had to approach different employees directly.

According to Leedy and Ormrod (2010), direct interviews have a advantage as it enables the researcher to establish a direct relationship with potential participants and therefore gain their cooperation. They also allow the researcher to clarify ambiguous answers and, when appropriate, to seek follow-up information (Leedy and Ormrod, 2010).
However, some were suspicions of the researcher as certain companies were restructuring their businesses due to new economic challenges and they were a bit cautious. In such circumstances, the researcher fully explained that this was pure academic research and it has nothing to do with the current situation of the company. Full confidentiality was guaranteed by assuring them that British law and University Regulations on research ethics protected their privacy. As the interviews progressed this suspicion appeared to be less evident.

The anonymity of interviews was assured for each participant in order to reduce the risk of bias. Still there is a possibility to increase the company performance caused by company mentality and culture within each staff member. This was evident in some interviews with senior managers from the mobile industry, who did not accept the loss of market share as bad company performance, but continued to enforce the fact that they are doing better than before in the market. On the other hand, some employees were very reserved to provide any bad information about their company as they saw the researcher as an “external” consultant that posed a potential threat, which could risk their job. The researcher worked very hard at the beginning to convince each participant that this research is only for academic purposes and it has nothing to do with either their company’s reputation or their job position. Even though senior managers and employees were convinced, they still had some reserved opinion towards the researcher.

The interviews started by asking general questions about their career within the company and their departmental work, which they operate. The idea was to build a close relationship with participants by starting with open question. As the interview progressed naturally, new questions and new issues were raised from their responses, and further details were asked to fully elaborate the problem.

All interviews were in-depth, semi-structured, where everything was structured but the researcher was also open to analyse any new issues that could arise. In the middle of the conversation, the researcher had the opportunity to get closer to the participants and specific question were asked regarding the formulation and implementation processes. The main advantage of this approach is that the researcher can keep on asking questions until she/he is satisfied that the questions are understood as intended (Ghauri and Gronhaug, 2010). These questions were more direct to better understand the formulation and implementation processes within the company.

At the end of the interview, the participants were asked to add anything that was not mentioned, or something else that could improve the research on low cost strategy. All participants allowed the researcher to record their interview, and as the non-verbal messages emerged, (such as voice, face expression) notes were taken. The majority of interviews varied from 40 to 60 minutes. Table 10 describes the exact number of the interviews and the industry they came from. As the Albanian and Macedonian markets are new emerging markets, many multinational companies have not more then 10 years of experience within the market, but still it is considered good experience.

In addition, three key interviews were undertaken with government officials and industry watchdogs. Also, many informal discussions with different MPs (Members of Parliaments at the Economy Committee) and the ex-minister of Finance were conducted. One of the benefits of in-depth, semi-structured interviews is that the researcher is present during the interview and can control the comparability (Rubin, and Rubin, 2005).

A few differences were seen between government officials and those from businesses in Albania. For instance, the new law changes were considered as achievement for government officials, whereas a business sees them as a threat, which could become their weakness in the long run. The main similarity was that all participants, regardless of their job, liked to talk about their role within the organisations and as the interview advanced more facts that are valuable, were given. This was the main advantage of the research as it allowed the researcher to get more evidences and better understand how the implementation process works in companies that follow cost leadership strategy in service sectors.

The majority of the data was collected from Albanian service companies and government officials (13 interviews) between December 2009 and April 2010, and from Macedonian service companies (10 interviews) from September 2010 to November 2010. During the primary data collection, there were many methodological difficulties in the development of strategy formulation and implementation. As the researcher was in the UK for a long time and the topic would cover Albania and Macedonia, it become very difficult to access information and collect the data. Likewise, many different government and international bodies provided a variable flow of information and statistics. Therefore, the author could not get all the accurate data needed for this specific research study.

3.6 Data Analysis

Company cases are analysed based on conceptual model from the literature review, in the following way:

It first starts with companies from: Airline, Retail and Mobile-Telecommunication.

a: Describing the **external factors** that influence a company to implement its own strategy. This section explains how companies are currently competing in the market and how external factors influences their strategy. The researcher tends to analyse mainly the economic, legal, and competitive factors that have an influence during the implementation process. Mason (2007) researched the influence of the external environment on the strategic management by using qualitative techniques of case study approach in the South Africa IT market. He concluded that during strategy implementation companies should pay attention to environmental changes and the changes should be organic and self organised processes.

b: Describing what kinds of **internal factors** needed to implement the strategy.

This section mainly analyses what type of strategies the companies use as competitive tools and what kind of policies they follow to implement them. The researcher tends to analyse the company target, operational efficiencies, economies of scale concept and other aspects that are linked with the implementation processes. The internal environment is a key consideration in the process of strategy formulation (Ghobadian, Regan, Gallear, Viney, 2004). Also, Grant (2005, p187) points out that "if strategy had been designed without taking into account the companies' capacity for implementation, it is a lousy strategy".

c: Evaluating different **formulation** and **implementation policies** that are needed to follow any given strategy
In this section, I am going to analyse how companies formulate their strategy, how they identify their resources, opportunities and risks during the formulation process; the role of CEOs in formulating and implementing business strategy and what the CEOs did differently. In addition, I am going to analyse the role of the middle manager in

implementing business strategy, comparing both roles that are needed for the implementation process.
According to Amagoh (2009), the role of effective leadership and management has had a significant impact on the ability to formulate, implement and sustain the initiative of strategic change.
Also, Guth and Macmillan (1986) and Parnell (2008) stated that when companies implement their strategy they should consider senior and middle manager's role towards employees, as they are the key persons that execute the strategy. They are motivated more by their perceived self-interest rather than the interest of the company, unless the two agree.

d: Findings of the research

After all stages have been analysed, a given outcome for all companies is presented. As I am analysing the service sector, I have provided an overall analysis through implementing similar techniques from Nvivo software. In addition, any new suggestion made by the participants and any new results that came from the research are presented in this section.

Darlington and Scott (2002, p147) suggest that the use of the computer program depends on the amount of data and it is not advised to use it for a small amount of interviews. In the same vein, Bryman (2004, p420) states, "… if you have a very small data set, it is probably not worth the time and trouble navigating your way around new software… if you think you may use it on a future occasion, taking the time and trouble may be worth of it".
As there are only 23 interviews that need to be analysed over a period of 12 months, the researcher is using similar technique as Nvivo by analysing transcripts, coding the most important factors, grouping them through the presented model and then apply a multiple case study method for the research outcome.

In our case, the data analysis process entails the analysis of the interview transcripts, documentations and other evidence to highlight any new concept that is related to our research questions. All transcripts were thoroughly reviewed and they were coded whilst I present them at our final report. Due to multiple case study approach, I compared the new interview facts with previous ones to look for any reliable evidences. However, the process of interpreting and analysing qualitative data is perhaps the most difficult and time consuming task in researching the case study qualitative approach as we cannot be satisfied only with convincing stories (Ghauri and Firth, 2009).

The data groundwork and analysis stage started immediately after the transcription of interviews was done from tape recordings. Together with the notes, they were read many times to find out new emerging problems that were linked with the implementation problems and analyse if they were included on the conceptual model. It needs to be noted that the majority of the transcription process was done immediately to capture any verbal and non-verbal elements of the interview.

Nevertheless, due to a tight travelling schedule, it was impossible to transcribe all tapes and notes as some of the participants that came for non-formal interviews did not want to be recorded. In addition, the researcher did not transcribe all interviews, as some of their information was not relevant for the research. In addition, the time factor was an important element.

It needs to be clarified that after the transcription process, the researcher sends their interview to the participant, to make sure that there was no misunderstanding or any misleading fact. After their final approval, the researcher used their interviews as evidence for the project.

According to Ghauri and Gronhaug (2010), the qualitative data analysis could be seen as both interpretative and eclectic in nature, and there are many ways to analyse such voluminous data. Also, Miles and Huberman, (1994) mentioned that researchers can employ both a “rigid” deductive approach and a “flexible” inductive approach.

As the qualitative method seeks to illustrate and explain a pattern of relationships and interactions between different facts, the researcher used the inductive approach that is more flexible and then moved gradually towards the “rigid” approach by organising different tables and spread sheets. According to Darlington and Scott (2002), inductive and deductive analyses can be diverse and they can be used together. For these reasons, both methods were implemented for the data analysis section.

Many texts and summaries of interviews were grouped in the data analysis section according to their opinions. This was done to break down the interview and analyse the observation from transcripts in a more efficient way.

After different recommendations from Miles and Huberman (1994), Ghauri and Gronhaug (2010), the inductive approach was implemented because:

- It was a very open-minded analysis on how the company formulated and implemented the low cost strategy. It was easier to analyse and utilise different implementation factors in strategy.

- It helped to recognise whether there were new variables and factors that were not included in the conceptual model. It also helped the researcher to analyse how these new factors would influence the implementation of low cost strategy and cost policies.

- It was also explained in the literature gap that the current literature does not provide any information about how the cost policies or low cost strategy are implemented in the service sector. The use of this inductive flexible method proved to be a good way to analyse all issues that are related to the low cost strategy.

Therefore, the data analysis process requires the writing of a descriptive statement based on a serial recorded observation (Yin, 2003). According to Miles and Huberman (1994), three steps need to be followed: Data Reduction, Data Display and Conclusion drawing

Also, deductive and inductive approaches were used in this study by implementing Miles and Haberman's model in following way:

Data reduction – The researcher had interviews and evidences from 6 companies in the service industry from different managerial levels. It was therefore important to collect the data from various sources and organise them in groups so that the conclusions can be drawn and verified.

Data display – after the researcher grouped different factors, he displayed the data in a very compressed way through tables by dividing key factors that have an influence on cost policies or low cost strategy, so that conclusion can be easily followed by coding and categorising the most important factors. Coding is the procedure of obtaining text from transcripts and categorising them together based on similar information, data, concepts and factors. According to Rubin and Rubin (2005), this process allows the researcher to extract quickly all coded materials that have the same ideas, concepts, factors and relevant markers and then examine them together. As the number of codes was accumulated quickly and changed as analysis progressed, the researcher kept a record of his emergent codes in a separate file as a code sheet. During this process, a set of codes together with their content descriptions and a brief data example for reference were taken. All qualitative researchers should possess several personal attributes during coding, particularly they should be organised, exercise perseverance, deal with ambiguity and become rigorously ethical – Saldana (2008). The researcher focuses special attention to all attributes especially the organisational part (please see appendix 3).

Conclusion drawing: At this stage, the researcher analysed whether there were any similarities in different companies, to see if there were any patterns between airlines, retail or mobile telecommunication companies, then he followed with possible configuration of key factors that determined the low cost strategy in the service sector and draw a general conclusion by the triangulation method.

The researcher took note of overall interview rating for each factor, which has an influence during the formulation and implementation process (highly influential factor, medium influential factor, and low influential factor). When the same factor had an influence in all six companies, the researcher could draw the conclusion that it is a “highly influential” factor. When an implementation factor was influential in only three companies the researcher could draw the conclusion that it is a “medium influential” factor. When an implementation factor was influential, in only one company the researcher could draw the conclusion that it is a “low influential factor”.
According to Harris and Brawn (2010), it is useful to examine several studies in depth to discuss how these variables appear to affect levels of agreement. Harris and Brawn (2010, p.11) “... interview data sets should be analysed separately using methods suitable to each; then results can be compared to see if any common messages resonate..” Smith (2006, p. 465) also illustrated this research approach, stating that, “… triangulation attempts to confirm inferences made from the findings of several research methods and approaches.

According to Denzin and Lincoln (2007), the triangulation method means more than one approach to analyse the research problem, to ensure the findings. Four different forms of triangulation approach are used to reinforce the findings (Denzin 1979). Data Triangulation – where the researcher applies different source of data collection; Investigator Triangulation – where there is more than one researcher, who analyses the problem; Theory Triangulation – where the researcher applies different theories to interpret the data, and the final one is the Methodological Triangulation – where the researcher follows multiple methods to analyse the problem (Denzin, 1979).

In all cases, the researcher implemented the data triangulation method where different sources of data from all three industries were analysed to ensure that the results are properly validated. In addition, to better validate the results, different source of data was gathered from different managerial levels such as senior, middle managers and employees. According to Mason (2007) during the strategy process, all managerial levels are fully involved in implementation stage.

3.7 Research Ethics

The ethical problem in qualitative research studies is not similar to the quantitative study. According to Orb, Eisenhauer and Wynaden (2001) possible ethical conflicts exist over how a researcher gains permission towards company members and what are the effects on participants. Researchers have therefore moral accountability to clarify and find answers to their questions sincerely and correctly (Ghauri and Gronhaug, 2010). Also, the ethical task of the researcher starts with problem formulating and he should not humiliate, or create other disadvantages, participants who have provided him with data (Ghauri and Gronhaug, 2010)

In order to fully respect the ethical requirements, the researcher followed strictly the rules and regulations of the Ethics Panel at King's College London and considered different literature suggestions, too. Additionally, the author did not cause any type of actual or potential harm of any kind to any party participating in, or involved with, this study. The ethics panel at King's College London thoroughly reviewed and accepted the research topic. During interviews and coding processes, the researcher needs to be rigorously ethical with participants and treat them with respect, and be strictly ethical with the data collection or analysis (Saldana, 2008).

3.7.1 Informed and Voluntary Consent

The researcher sends a formal letter to gatekeepers (see appendix 2, p.193), explaining the main research purpose and their ability to arrange an interview with their staff members. After getting positive feedback from HR managers, the researcher went to the companies' premises to interview different staff members. Each person interviewed was given an Information Sheet to better understand the main purpose of the interview, time scale and benefits Each participant was also informed of the right to withdraw from the study at any time. After they fully understood and accepted to be interviewed, they signed the consent form and kept a copy. The consent was gained through written consent forms, and the ethical panel of King's College London identified the necessary elements of the consent. All staff members who were directly involved in research went through this process. According to Halai (2006), this principle remains to respect participants so they are not forced into participation and have access to relevant information prior to the consent. In order to improve researcher-participant relationship, the researcher started with open question in order to gain their trust (Ghauri and Gronhaug, 2010).

3.7.2 Confidentiality and no harm to Participants

The researcher offered full protection to participants by giving them full anonymity during the interview. By assuring the confidentiality agreement the anonymity of the interview, the participants were more open to express their opinions. In general, anonymity was provided by the use of pseudonyms. The researcher provided each individual with an outline of the risks and benefits involved by participating in the research. Halai (2006, p6) states, "These principles and procedures of an ethical engagement with a research study are laid out with the best of intentions to protect participants from malpractices and breach of ethics."

Chapter 4.0: Findings

This section presents the research findings from companies in Albania and Macedonia. It starts by giving a general overview about the companies and then it analyses the formulation and implementation process of low cost strategy in service industry (airline, retail and mobile-telecommunication, please see fig.7). This is done by following the conceptual model from the literature review and it starts by analysing cost policies and low cost strategies of the service industry.

Figure 7: Research Findings in Companies

Cases in Service Industry
“A Airline” (Albania) **“S Airline” (Macedonia)**
“EM Retail” (Albania) **“RAM Retail” (Macedonia)**
“AM Mobile” (Albania) **“VM Mobile” (Macedonia)**

4.1 Case 1: Airline Sector

4.1.1 Background Information

Case 1.1 – A Airline

A Airline was bought from EVSEN Group, based in Azerbaijan, in 2009. The company has more than 180 people employees and its annual revenue is more than 40 million Euro. In the last few years, they transported over 200,000 passengers with 3,000 scheduled flights. However, the company nearly went bankrupt in 2009, because of bad management, competition, difficult economic environment and a rise in operational costs.

The new investors radically changed the whole businesses processes in order to survive. Beside their own aircrafts, model BAE 146 series 100, 200 and 300, MD82, they are in the process of leasing a new efficient fleet with B747, 757, 767 to cut operational costs. The company is focusing more on renting rather than owning airplanes. Senior managers believe that operational costs could be reduced through a new fleet, a cheaper catering service, and better marketing campaign to inform customers of their new services on-board.

Matching their prices with other low-cost airlines is becoming their main competitive tool in order to survive in the market. Moreover, they are offering better and unique services compared with the low-cost airlines. For instance, they are the only company offering Charter Flights for tourist agencies, which helps them to differentiate their service from the others. The company is classified under LEVEL 5, which means that they have an international reservation system and they can use international flight connections. The new organisational structure is based on three divisions: Commercial Division, Financial Division, and Flight Division. In each division, they have vice-presidents in charge. The head of all divisions is the CEO.

Case 1.2 – S Airline

S Airline went bankrupt in 2001 due to heavy competition and business environmental difficulties that characterised the airline industry at this time. In 2006, Lufthansa Group bought the company and it is now a member of the global Star Alliance. The company has gone through huge cost restructuring programme, but still provides quality air service (**Swiss, 2010).** In 2009, the company had 7,496 employees. It carried more than 10 million passengers, and generated round 140 million Euro of operating profit; it is flying in 39 countries including the Macedonian market (Swiss 2010:1).

4.1.2 External Factors: airline companies

In 2004, the Albanian government gave the only international airport to a German company, Hochstein with consortium agreement for a 20-year period. Also, in 2008 the Macedonian government gave two international airports (Skopje and Ohrid Airport) to a Turkish company, Tepe Akfen Ventures (TAV). TAV's planned investment is 200 million Euros in both airports and 30-40 million Euro concession fee for the government in the next 20 years (World Bulletin, 2010).

The German and Turkish companies, which run the international airports, are in a monopoly position and they charge very high prices. In each airport where they operate, there is only one company dealing with handling and fuel supply; their prices are extremely expensive. This has pressured companies to formulate and implement low cost strategy within their operational activities as they create huge financial costs. For instance in Frankfurt, the oil price is 600 Euro/T whereas in Albania and Macedonia it is 800-900 Euro/T. In addition, the parking fees are 300,000 – 400,000 Euros a month for a medium sized aircraft, compared with 200,000 – 300,000 Euros in Frankfurt. So, the oil price pressures companies to invest more in efficient aircrafts in order to reduce their costs and implement low cost strategy.

In 2011, the Albanian government is planning to introduce new (legislation) laws, which will allow the opening of the second international airport at Kukesi town for cargo services only. This means cheaper prices for airline companies and new opportunities for cargo business.

In terms of legal requirements, airline companies are heavily regulated from internal and international watchdogs to make sure that the quality is always the very best (see table 12, p95, 12.2). The International Aviation Agency has the right to close down or penalise any company that does not respect the international regulation. Therefore, the company needs to constantly invest and repair the airplanes to fully respect these international standards to guarantee long-term success for the strategy. The basic competitive tools in the airline business are: punctuality, safety, standard of service and good fleet.

In addition, fixed costs such as Environmental Tax are gradually increasing. Companies are forced to find new ways to cut costs if they want to implement low cost strategy. Even big companies, such as Lufthansa, are formulating new cost reduction policies by not serving food on board. All companies need to consider a low cost strategy in order to survive.

Liberalisation of the airline industry was the biggest external change that influenced strategy formulation and implementation of companies.

For instance, A Airline used to have 60% of the market share, but as the market was liberalised new competitors came in and in 2010, they had only 9% of the market share. Therefore, passengers had more choices; they could easily compare their price and standard of services. The majority of passengers gradually moved towards new airline companies like Alitalia, Lufthansa, Austria Airline and British Airways. They are well-established player with better services for the same price, whereas A Airline was gradually losing its market leadership.

The increase of oil price had a huge negative impact on both companies' profit margins. Nevertheless, it needs to be stated that A Airline has old airplane models with 6 motors, which consume double amount of oil and carry only 100 passengers on-board. For a flight duration that takes only 1.5 hours, the fuel consumption is 3-3.5 tones. On the other hand, S Airline operates with Boeing 737, which consumes only half quantity of oil and carries 180 passengers on-board.

The rise of the oil price had more of a negative impact on A Airline rather than on S Airline (see table 12, p95, 12.3). In fact, we could say that this created a competitive advantage for S Airline. In addition, some managers complained that the competition was not fair for the A Airline. Their competitors do not respect the mutual agreements for scheduled flights and they always tend to break these agreements.

"…. Still this competition is not fair. For example, our main competitors are declared as low cost (they are not allowed to go to certain airports). They have lower airport taxes as they fly in small airports. Its regulation states that they have to respect these terms, but sometimes they do not. There is a mutual agreement within companies for not flying to the same destination, at the same time, on the same day, but they do not respect these agreements" (A Airline, A2, see table 12, p.95, 12.3).

Based on all factors in 2009, the market shares of A Airline dramatically declined from 60% to 9%, whereas B Airline is gradually increasing from 12% to 42%. Whereas, S Airline has a stable 8% of the market share.

In addition, another external change is that customers of all companies are becoming price sensitive and they are not expecting luxury service inboard, as the average flight is only 2 hours. However, the main problem with customers is that they are not booking the tickets in advance and they are missing seasonal offers. A Airline finds it easy to formulate but difficult to implement its low cost strategy, as customers do not follow their way and the competition is getting more aggressive (see table 12, 12.5, p.95).

Table 12: Resource Allocation: External Factors at A and S Airline

Key Codes	Resource Allocation	Ref - Interview
12.1 Target Price Sensitive Clients	We are offering extremely cheap offers where customers pay only 1 Euro (excluding tax) for any destination from Tirana to Italy. With the low cost prices, we are trying to achieve the mass market. We do not want luxury service. Every one... In leisure we target everything that are in leisure... In big companies we target corporate, individuals and so on. Whereas low cost strategy companies have a different strategy, they target more the family. That is what they are based on. Nevertheless, when they grow, they widen their target group. They main target is low and middle-income earners.	A1-Air.p1 M1-Air.p6
12.2 Government Regulators and Legislation	We are much regulated industry and we have to make sure that the quality is always on top level. The International Aviation Agency has the right to close down or penalise any company that does not respect the international regulation. Therefore, we have to make sure to fully respect these international standards. In air transport, everything is regulated by bilateral agreement, especially in Europe we have conventions that we all respect.... We cannot really advertise prices without taxes. We have to advertise the full price, as requirement of the consumer protection law. Everything needs to be transparent.	A1-Air.p4 M1-Air.p3
12.3 Government Regulators and Legislation	The oil price has been increasing for the last 3-4 years. It is a killer. The consumption of one aircraft for 1 hour is more or less about 2 Tones. Fuel consumption is very important thing, because one of our flights is 1.5-hour average, so fuel consumption will be 3-3.5 tones. The airline industry is the most sensitive one. If there is a small political, economic or something else, we are the first one to be influenced. It is influenced from the travelling sector and so on. If something happens in Middle East the oil price could go up, then the insurance prices go up and so on....	A2-Air.p3 M1-Air.p3 M2-Air.p2
12.4 Government	In 2011, the government is planning to open the second international airport at Kukesi town. This means cheaper prices for	A3-Air.p3

Regulators and Legislation	airline companies and new opportunities for our cargo business. There are no government restrictions in Macedonia, but no low cost airline operates, because of the cost of the airport. We have very high oil, parking fees, which does not allow. The airport is run privately, and it is the only international airport in the market. Therefore, it is very difficult.	M1-Air.p6
12.5 Market Liberalisation increased the competition	We used to have 60% or more of the market share. Then new competitors came, passengers had more choice and they could compare the standard of services and prices within the market... This hugely influenced us in implementing a new strategy.	A2-Air.p2
12.6 Target	We tend to target all Albanians who live abroad. We do not classify them.	A3-Airp.p3
12.7 Competition in Distribution	I think in airline business is that the way that you fight is the way you distribute the flights the distribution channels...old channels: agency or new channels such as e-commerce.... The second one is becoming more important.	M1-Air.p2

Table 13 Summary of External Factors for A and S Airline

Market Environment • Monopolistic position of private international airports has increased the operational costs dramatically. • The industry is heavily regulated by internal and international watchdogs. Companies need to constantly invest in maintenance parts. • Fixed costs such as Environmental Tax are gradually increasing. Companies are forced to find new ways to cut costs. • The external environment (economic or political factor) has a huge influence on the travel business. **Competition** • Liberalisation of the airline industry was the biggest external change that increased the competition and created new standard within the industry. • Competition tends not to be fair for some airlines in terms of flight schedule. • New legislation for Kukesi Airport means new opportunities for businesses to expand in the cargo business. • Low Cost Airline target low-middle income earners, mainly families that travel from one point to other to see their relatives.

- Customers are becoming price sensitive

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- The increase of oil price has a huge negative impact on the companies that have old airplanes.
- Companies need to upgrade their airplanes from time to time to cut their operational costs as the oil price increases.

4.1.3 Internal Factors: Case 1.1 - A Airline

The A Airline fleet is not new. They have different models and their maintenance fees are higher. Also, both companies had particular aircrafts with weight problems, so they could not load all passengers' baggage. This was a minus as the passengers expect to have their luggage once they arrive at the destination.
Even if A Airline decides to sell the previous model, they cannot make any profit, as they are too old. If they keep them, the operational and maintenance fee will damage the company profits.
As the external environment becomes difficult, A Airline is trying to diversify its target by aiming to serve in different destinations. They are investing in different types of airplanes to be classified for Level 6 and to fly in different worldwide destinations.

Part of their restructured strategy is huge investment in:

- new airplanes, Boeing 737 (to cut its operational cost)
- Better catering service (50% less expensive)
- Manage alone the international reservation system to cut 60% of the reservation fees
- Open New Cargo Service

The head of Marketing Director at the A Airline (A1) stated:
"We are trying to get Boeing 737 to cut the running costs. With this airplane, we can cut the oil costs by 50%, which is a huge cost. If we have 100-150 flights per period and if we

get these new planes that means that for the same destination we pay only 70 flights. In addition, for Tirana-London return flight we spend $12,000-15,000 on fuel. For the same destination, but with new airplanes with 2 motors, the fuel cost is going to be only $6,000-$6,500 (see table 14, p99, 14.2). If we multiple that with the numbers of flights per week, we can save huge costs. Also, we had very expensive catering service with poor quality. Now we have chosen a new catering company, 50% less than the previous one. Previously, the catering costs were higher than our staff costs. With these price reduction policies you can see how much we are saving."

In addition to its operational efficiency, the company is restructuring its international reservation system. Previously they had a very expensive reservation system and were obligated to have a contract with an international company such as IATA. As they are buying and running a new reservation system, it is very likely that the reservation cost will drop by 60%.

Investing in new technology to cut operational costs is becoming the main goal of Albanian Airline. The management of reservation system and new airplanes shows how important is to update the technology and manage alone the reservation system.

4.1.4 Internal Factors: Case 1.2 - S Airline

S Airline restructured the entire company by cutting costs in order to survive. They downsized 20,000 jobs and they focused only in countries where they have strong position. S Airline is a very lean company that is able to compete with EasyJet, Ryanair, Air Berlin and other low-cost carriers. They try to have a low cost approach on cost operations but not on the delivery side. They have to cut cost continually. The company operates fully electronically in different parts of the business such as the reservations, price comparison, updates, finance and marketing.

In addition, in order to keep the minimum level of costs the company is mainly operating with new Boeing 747/474s in order to keep the minimum level of operational costs by cutting fuel costs and utilizing seat capacity. The new aircrafts are composed of a new material, which makes them lighter and so spends less fuel. The new navigation systems are more precise, helping them to find the most economic routes (see table 14, p.99, 14.3). However, the main problem seems that in the European market, there are more then 20 air control officials whereas in the USA there is only one. Therefore, there is a lot of potential for the European market to cut costs if the EU institution will introduce a new policy.

Table 14: Resource Allocation: Internal Factors for A and S Airline

Key Codes	Resource Allocation	Ref - Interviews
14. 1 Internal Factors		
14.2 Constantly up-grade products to reduce costs and utilize the new technology	We are trying to get Boeing 737 to cut the running costs. With this airplane, we can cut the oil costs by 50%, which is a huge cost. If we have 100-150 flights per period and if we get these new planes, that means that for the same destination we pay only for 70 flights. Therefore, for Tirana-London return flight we have the fuel costs of $ 12,000-15,000. The new airplanes, which are replacing the old ones, are more cost efficient...If you compare the small with big you can see that the new generation of planes can be by 15-30% more cost efficient. For instant 474/747 on 2-hour flights you can save 2 tones of jet flues with the new generation planes. In addition, the tone is 700 Euros... If you add the round flights and the hundred of destinations we are talking about millions....	A1-Air p.2 M1-Air. P4
	The fleet is not young, it is not new, but it is not old. They are same model but different version. So it is not maintenance wise as the parts could not feet each other. Each of them was produce in different year period. They are not very big aircrafts as they have only max capacity of 100 passengers, where as competitors now have younger fleet with bigger capacity of 140-180 passengers. Their value is not the same as it used to be, and if we decide to sell, they do not have the same price.	A2-Air p.2-3
	B Air is a new company and it is on the process of changing the whole airplane fleet. We used to have very old airplanes fleet with small capacity and expensive costs but now we gradually changing the whole airplane fleet with new models to cut operational costs.	A1-Air. p2
14.3 Cut Operational Costs to increase efficiency	Basically, one of the main things is the fleet. You have to have a good standard fleet, a good standard of maintaining this fleet and you have to have a good cabin crew… with this particular aircraft, if you give a full load of passenger, including the fuel, you cannot load with baggage for the whole passengers.	A2-Air.p4
	Previously we had very expensive reservation system. We paid to third parts very high prices as we were forced to have a contract with international companies like IATA. We are now buying a new system that will reduce all the reservation cost by 60%. This is an international reservation system run from our own company. Everything is electronic... it is done automatically... and checking the price... It is very important...If you do not watch for a week, You may lose potential clients and revenue if you do not check for a	A2-Air.p3 M3-Air.p3

	week.... We have to constantly update what is happening with the competition...I was also trying to have different price for distribution channels...I played and differentiated the prices for different markets.... For example, different price for clients from USA and Macedonia.. In addition, the navigation system for engines is important...They are composed of new material, they got much lighter...it gains more technology gains. The navigation is getting more modern, it gets more precise...It finds out better routes, more economic routes.	M2-Air.p4 M1-Air-p3
	Also, we are restructuring all processes and it is logical that there are new expenses especially in marketing sector	A2-Air.p2
14.4 Expand	We are also planning to open the cargo service. The legislation is likely to change and as result, the Kukesi Airport is likely to open. The new highway and the airport will offer us a good opportunity to operate with cargo services and it is very profitable business.	A1-Air.p2
	At the moment we are planning to start in March direct flight to Italy with many destination	A3-Air.p3
14.5 Establish Eco. Of Scale	The Economics of scale concept is used in various ways. We offer 4 different offers for all our clients to make sure that all seats are full with passengers. Therefore, we are using this concept to make sure that all seats are taken. The idea is that each destination has its fixed cost, and we have to make sure to put as many passengers as we can in order to gain from the economics of scale concept.	A3-Air.p4
14.6 Suppliers	Suppliers are another important ways of cutting costs. You have always to question and put friendly pressure on your suppliers. You have always to pressure them to offer you better prices... it is very important to have a strong partnership with your main suppliers, so they understand your aim for non-stop cutting cost strategies and sometimes they do them by themselves by lowering the costs.	M1-Air.p7 M2-Air.p5

Table 15: Summary of Internal Factors for A, and S Airline

Operational Efficiency:

- Constantly upgrade the airplane models to cut operational costs
- Offer basic catering service to keep the minimum level of costs
- Strong negotiation with suppliers to cut costs and create long-term partnership
- Focus more on Dry lease contract rather than Wet lease contract

Technology Utilisation

- Manage alone the international reservation system to cut costs
- Upgrade technological software to cut the reservation costs and flight routes

- Utilise the existing airplanes by offering new cargo service

Target Price Sensitive Clients

- Target the mass market (families) with different marketing offer to gain from economies of scale concept

4.1.5 Formulation and Implementation Policies: Case 1.1 A Airline

A Airlines ownership has constantly changed in the past five years from one company to another; there was an unstable environment in all departments. None of CEOs were able to do anything new in terms of strategy formulation, they just came and managed the company for a couple of months and they left. Even when the CEOs were in the company, they constantly moved abroad.

According to the statement of a low-position staff member in the operation department (A2):

"The CEO was not present at all. Once the clock was 5-6, the office was closed and that was it. Our flights were ending very early comparing with other companies. The latest one in our company was departing at 3-4pm and returning at 7-8 pm. Nevertheless, there are companies, which are operating up to 11-12 o'clock pm. The employees, who were working in our company, did not have someone to pressure them to work harder. Therefore, everything was comfortable for them. They did not care at all. The CEO was on and off. Whenever there was a problem, he came to visit. This is very expensive industry and once we did a mistake the costs were tremendously high."

To overcome such problems, the new CEO formulated a new cost strategy policy by identifying risks and opportunities of the company and centralising the whole management processes, but in a very open environment. All middle managers contributed towards new strategy, but the CEO has more of monitoring role than the middle managers. The company has only 170 employees and it was easier for it to implement any given strategy.

"The CEO organises a meeting with each division. Based on the duties that are in each division the CEO prefers to have meetings personally with directors of the department. Depending of the problem, he also prefers to meet personally the employees to see how things are going. For instance, the CEO manages the marketing campaign together with me. He participates in the decision making process by analysing what we need to do; he also includes people from other departments as well." (Director of Marketing A1)

Middle managers are also implementers, but their decisions are always reported to the CEO on a daily basis and it is he who has the final say. They have a brief meeting every day for 30 min to 1 hour. All heads of departments and vice-CEOs need to participate and they have to report their daily tasks. Then the vice-CEOs report on the daily tasks to the CEO. This helps all employees to better understand the company's current situation and the requirements from their daily tasks.
The main role of middle managers is to implement international services standards whereas the CEO formulates the strategy. Once the CEO decided to change the catering service, they organised a questionnaire to analyse the passenger perception of the catering service. The good thing was that the company had some good feedback from clients and the bad thing was that they implemented this method only once.
In general, the middle manager has started to push things in a good way. The low positioned staffs see the middle-management team as the most important element for the company's success.
"No matter if you have a good CEO with a right strategy, if the people below him are not good, they can not implement the strategy. But if you do not have a good CEO but good middle managers, they would know what kind of standards to apply" (A2).
Employees do not know the existing strategy. This shows that even with the new ownership the company has concentrated more on daily operational activities rather than informing all employees of their new policies.
Coordination is extremely important for this business and everyone needs to understand that the work of each department is linked with another the others. For example, if the cabin crew behaved aggressively towards the passenger and if the passenger went to media to make a complaint, the whole marketing campaign would be destroyed.
Also, if the maintenance department does not repair the airplane on time the whole system will fail. Companies like A Airline have experienced that small mistakes, such as the case of the "Pilot Escape", could destroy three months of marketing finance and effort.

4.1.6 Formulation and Implementation Policies: Case 1.2 – S Airline

According to a senior manager at S Airline (M1), small companies are more centralised where the CEO has a say in all aspect of the implementation process, whereas in big companies it is different. For instance, when the company announces a new cost strategy than the CEO formulates the strategy and he is the one that needs to sell his idea to everyone.

In big companies, the CEO has more of a strategy formulation role as he cannot do it alone and middle managers are the ones that implement the strategy and control the costs. The most important factor for the implementation seems to be the motivation factor by creating a joint spirit within the organisation.

In addition, when new strategies are published, it is very difficult to see the result in the short term, but everyone has to wait until the implementation process is fully completed and the market accepts it. At S Airline, certain low cost policies were implemented very wrongly as they did not consider the advice from lower levels during the formulation process.

What is valid for New York is not valid for Casablanca or Bombay. For example, the cost cut of NY makes sense, where as cost cut in less developed countries does not make any sense, and it does not have any effect (S Airline, M1, see table 16, 16.1)

... they wanted this kind of nonsense things... Without considering that the average salary in NY was 5,000 $ where as in other countries is $500. So the cost cut by 10% does not have any major effect in low paid staff countries...(S Airline, M2, see table 16,16.5)

Table 16: Resource Allocation: Formulation and Implementation policies at A and S airline

Key Codes	Resource Allocation	Ref - Interviews
Formulation and Implementation Policies		
16.1 Leadership Role	… he also prefers to meet personally the employees to see how things are going. For instance, the CEO manages the marketing campaign together with me. He participates in decision-making process by analysing what we need to do; he also includes people from other department as well. In small companies, in companies that have size of 2 flights is	A1-Air.p3 M1-Air.p6

	very central. I have seen it with MAT, where managers have control on everything... You see how they get even in details. In big companies, it is different. If you see, for instance, the new cost strategy that the CEO formulates and he is the one that needs to sell his idea to everyone...	
16.2 Leadership Role	The CEO was not present at all. Once the clock was 5-6 the office was closed and that was it. Our flights were ending quite early comparing with other companies. The latest one in our company was departing at 3-4pm and returning in 7-8 pm...	A2-Air.p2
16.3 Leadership Role	We are running a little low, due to the ups and downs that we had in the last 1.5 years, as our company was sold from one person to another person. So, basically a part of the running level is the instability of the employees.	A3-Air.p1
16.4 Leadership Role	There was a certain period of time that we had no CEO. Then we had another person but he was not a real CEO. He was dependent on his personal strategy.	A2-Air.p4
16.5 Coordination	Every day we have a brief meeting from our country managers 30 min – 1 hour. All heads of departments and vice-CEO participate and report on their daily tasks. Then the vice-CEOs report on the daily tasks to our General CEO. This is to better understand what the company situation is and what do we need to achieve in order to improve our business…. if the maintenance department does not repair the airplane on time, the whole department will stop working. In Swiss, I would say that when we have a cost-cutting project, we have to follow it. Sometimes it was difficult to implement, as it is a big MNC company working in so many environments. For example, what is valid for New York is not valid for Casablanca or Bombay... So, the cost cut by 10% does not have any major effect in low paid staff countries.	A1-Air.p3 M1-Air.p6 M2-Air.p5
16.6 Middle Manager Role	Their role is to implement standards of services. If the management decides to change the catering, then these people should organise the questionnaires to see what the passengers think about catering. They should always be in action to directly know what is happening… no matter if you have a good CEO if the people below him are not good, they can not implement the strategy. However, if you have not a good CEO but good middle managers, they would know what kind of standards to apply. The middle managers are the one that have the tools...They are the ones, who have the hands in costs... Without the support of the middle management, it is very difficult for him to achieve anything...	A2-Air.p5 M1-Air.p6
16.7 Middle Manager Role	no matter if you have a good CEO if the people below him are not good they cannot implement the strategy. However, if you have not a good CEO, but good middle managers they would now what kind of standards to apply.	A1-Air.p5

Table 17: Characteristics of formulation and implementation policies at A and S airline

Formulation Policies

- In small companies the CEO role is centralised – in big companies the CEO has a visionary role and he formulates the strategy.
- Change of ownership creates a very unstable environment for strategy formulation and implementation.
- CEO centralisation tends to increase the working pressure at middle management.

Implementation Policies

- Centralisation creates more efficiency when it is implemented in the right way.
- Middle managers have a key role to implement the strategy.
- Coordination, teamwork element is extremely important for strategy formulation and implementation
- Coordination element needs also to be within the context of the environment where is going to be formulated and implemented.
- Cost saving and a culture of working hard is seen as a very important factor.

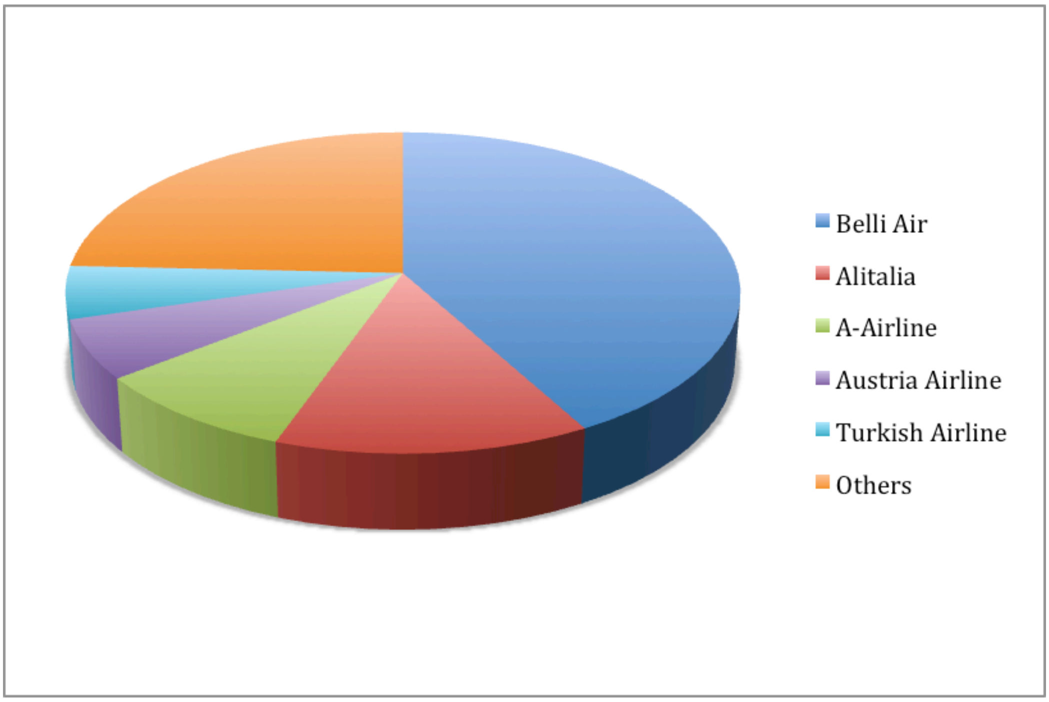
4.2 Analysis

S Airline is in a more comfortable position as they are leasing the airplanes, whereas A Airline is in a difficult position as they have their own fleet and they have not decided yet what to do with them. They are medium size aircrafts with max capacity of 100 passengers, whereas S Airline has a newer fleet with a 180-passenger capacity. Both companies target mainly Albanian/Macedonian clients (families), who live abroad and who use seasonal offers. For example, A Airline has targeted Albanian students in Italy by offering a direct flight for only 1 Euro (excluding taxes), and tries to convince them that they have changed their service.

As each destination has its fixed cost, marketing managers in both companies need to get as many passengers as possible. They constantly offered different prices, depending on demand and time factor. Both companies tried to implement the economics of scale concept by having full occupancy, set to reduce their fixed costs.

After the liberalisation of the airline industry in Albania, the new low-cost company, Belle Air, dedicated its operational efficiency towards reducing costs and directly competed with A Airline.
As a new company, they decided to invest everything on cost saving policies. According to the Tirana International Airports (2010), we can see that within 4 years, Belle Air became by far the key player in the industry accounting for 42% of passengers, ahead of Alitalia (13.5%), A Airlines (8.9%), Austrian (6.0%) and Turkish Airlines (5.3%) (Please see figure 8).

Figure 8: Airline Market Share in Albania 2010



Source: Tirana International Airport (2010), "Annual Report 2010", http://www.tiranaairport.com/files/downloads/pdf/Extract%20from%20TIA%20Annual%20Report%202010-En.pdf

The external environment seems to have similar effects for all airline companies, but it should be said that companies that are operating with old airplane models tend to spend 50% more oil. As such, the rise in oil price tends to have more effect on A Airline rather than S Airline, as they are still operating with old aircraft models just because they own them, but in fact they are spending more in the long-term as the maintenance fees tend to go higher and there is no fuel efficiency.

As international boards heavily regulate the industry, the highly demanding maintenance payments are crucially important for the company finances. Also, as the airport, services are completely monopolised in Albania and FYR Macedonia by one company, there is no much strategic tactic to reduce parking fees, oil fees or airport charges. Therefore, they have to compete for airport time slots and once a company enters with lower prices they tend to monopolise the timetable slots, as customers are price sensitive.
In terms of managerial policies, we could say that the constant changes of management team at A Airline in the past six years have created a difficult management environment for the new CEO to implement any strategy. The fact that the CEOs at different times tended to travel abroad and that there were no real demanding tasks, has created de-motivation problems with A Airline staff, as they still do not grasp the importance of working longer hours and the importance to implementing the low-cost philosophy.

Whereas at S Airline the problem with CEO formulation strategy was that they did not understand the market difference, and when a CEO introduces exactly the same low cost policy in all high-income markets (USA) and low-income markets (Casablanca), cutting same level of staff without accounting the wage difference between countries does not make any sense. It is therefore important that MNCs that implement low cost policies in international markets better understand the market realities and see whether low cost policy with have a real long term effect at company income. So middle management advice from country representative should be considered, as they are more in touch with market realities. Also, in order to keep costs down in the long term, it is important to save all possible costs and implement a company philosophy where everyone works hard towards the low cost objective. By doing this, companies will have more funds to constantly invest in new aircraft technology and keep minimum level of operational costs and spend less on oil and offer more seats for passengers.

Table 18: Conclusions: Findings for airline companies

External factors for A and S Airline
Market Environment • Monopolistic position of private international airports has increased dramatically the operational costs. • Internal and international watchdogs heavily regulate the industry. Companies need to constantly invest in maintenance parts. • Fixed costs such as Environmental Tax are gradually increasing. Companies are forced to find new ways to cut costs. • The external environment (economic or political factor) has huge influence in travel business. **Competition** • Liberalisation of the airline industry was the biggest external change that increased competition and created new standard within the industry. • Competition tends to be not fair for some airlines in terms of flight schedules. • New legislation for Kukesi Airport means new opportunities for businesses to expand in cargo business. • Low Cost Airline target low-middle income earners, mainly families that travel from one point to other to see their relatives. • Customers are becoming price sensitive **Macro Economics** • The increased oil price has a huge negative impact on the companies that have old airplanes. • Companies need to upgrade their airplane from time to time to cut their operational costs as the oil price increases.
Internal Factors
Operational Efficiency: • Constantly upgrade the airplanes models to cut operational costs • Offer basic catering service to keep the minimum level of costs • Strong negotiation with suppliers to cut costs and create long term partnership • Focus more on Dry lease contract rather than Wet lease contract

Technology Utilisation:

- Manage alone the international reservation system to cut costs
- Upgrade technological software to cut the reservation costs and flight routes
- Utilise the existing airplane by offering new cargo service

Target Price Sensitive Clients:

- Target the mass market (families) with different marketing offer to gain from economies of scale concept

Formulation and Implementation Policies

Formulation Policies

- In small companies CEO role is centralised – in big companies the CEO has a visionary role and he formulates the strategy.
- Change of ownership creates very unstable environment for strategy formulation and implementation.
- CEO centralisation tends to increase the working pressure at middle management.

Implementation Policies

- Centralisation creates more efficiency when it is implemented in the right way.
- Middle managers have a key role to implement the strategy.
- Coordination, teamwork element is extremely important for strategy formulation and implementation
- Coordination element needs also to be within the context of the environment where it is going to be formulated and implemented.
- Cost saving and the culture of working hard is seen as a very important factor.

4.2 Case 2: Retail Sector:

4.2.1 Background Information

Case 2.1 - EM Retail

The EM Retail is run as an independent company. The company employs 670 people: with average annual revenue of 21 million Euro, and it has 5-6% of the market shares. It has: 17 stores, where one is Hyper Market (4,500m2), six Supermarkets and 10 Corner Stores of 300-400m2. They have more than 22,000 products in their distribution system. Due to the new expansion plan, the company invested in a new Distribution Centre (DC) valued 6 million Euro, completely computerised with RFID technology. The company has a new organisational structure: Buying, Operational and Administrative Divisions.

Case 2.1 - RAM Retail

The RAM Retail is part of Migros Turk that has round 200 stores in Turkey, Bulgaria, Macedonia, Russia, Azerbaijan and Kazakhstan (Migros, 2010). They entered into the Macedonian market in 2005, by investing 20 million Euro (Seenews, 2010). The company opened a big shopping mall in Skopje and a new supermarket chain. In 2009, Ram Retail had five supermarket stores, one shopping mall and revenue of $22 million USD (Migros, 2010). The company aim is to further expand its supermarket chain.

4.2.2 External Factors: retail companies

EM Retail is the biggest retail chain in Albania with the fastest expansion strategy. The company is an established player as they were the first movers in the Albanian market, which helped them to consolidate their position. They use cost leadership and differentiated products for high-income earners. To target the mass market they try to be flexible by offering different size retail stores, 24-hour service, and serve as many customers as they can. However, at the moment, they have stopped expanding and they are consolidating the company.

“The company has competed based on standardisation of the entire processes within supply chain management, from the buying to selling procedures, to better serve the clients by keeping the minimum cost level (EM, Retail, A7)”. The biggest advantage of the company is that it has many selling points in Tirana and in other cities in Albania. The company benefited from bargaining powers with suppliers, and some basic food products are offered 5-8 % cheaper than other competitors. In addition, suppliers offered better prices, as they did not have to distribute to each supermarket.
However, even though EM Retail is the biggest company in the retail sector it still has modest market share. This is due to the fragmented market and external environment, which does not allow it to expand at the moment.

The head of logistic (EM Retail, A7) stated, “The *economic crisis had huge negative impact on our strategy. The price of raw material and products dramatically increased. The price rise increased by 40-50% in the world stock market. To make the situation even worse the company was negatively influenced by the exchange rate fluctuation.*”

Also, another employee (EM Retail, A9) added, “*The economic crises had an impact in the Albanian Exchange rate. Many Albanians are immigrants in Greece or Italy and they lost their jobs, their remittances drastically dropped in the Albanian economy. As there were less Euro in the Albanian Economy the price of Euro kept gradually increasing. This created devaluation of LEK, in 2008 1 Euro = 122 Albanian Lek and in 2010: 1 Euro = 140 Lek. That means a price increase for all products by nearly 12% for customers.*”
In addition, the buying power of the customers was going down as they had less money from their relatives, who live abroad. In the same line the head on non – Food products (A6) summarized, that “… *based on: a) exchange rate b) prices increase of raw materials, after a few months all our suppliers increased their prices by 10% but EM Retail did not pass the whole price to the consumer. Their profit margins were destroyed, as they could not increase the price in the same level. The company did not want to lose the customers and its reputation as low cost supermarket”.*

According to one of the employees at EM Retail, *"The biggest strategic mistake was that the company planned (formulated a strategy) to expand in a bad economic environment. They planned to open 8 stores in 2009. They did not open any of them. In fact, they closed down 2 stores to cut costs. In addition, they did not consider the fact that the market is limited and the concentration of stores in one area added extra costs. This was a mistake." Source: (A9)*

Due to the negative impact from the environment (economic crisis), the company changed its focus more towards basic products and services that clients are more likely to buy. They reduced the product variety and focused on basic products with affordable price. Therefore, they changed their strategy focus to better serve their client needs. They stopped expanding, closed down inefficient stores, and changed the focuses from Non-Food towards Food Products, as they are the basic products, which every one buys.

Another factor that did not help the company to expand is the legislative element. The company could not expand in the market and implement their low cost strategy, as there are many small companies, which are self-declared businesses and classified as small businesses. They cannot expand and become profitable when there is high concentration of small businesses, which does not pay the same level of taxes (i.e. they are taxed based on the self-declared revenue). This created unfair competition within the market. Due to the huge number of small family retailers, the government cannot control all of them and they do not want to close them down as it could increase the number of unemployed people.

According to EM Retail, (A7) "*The Albanian Retail Supermarket is dominated by small family supermarket stores, which are classified as small businesses and they pay minimum taxes. All modern retail companies that operate in Albania have only 30% of the market share, whereas the other 70% comes from small supermarkets. The governments find it very difficult to control all of them and they do not want to close them down, as they are afraid of unemployment. If the government taxes all of them like the laws require, I'm very sure that we can double our sales figures as result of fair competition."*

RAM Retail entered into the Macedonian market in 2005, by investing 20 million Euro. The company opened a big shopping mall in Skopje and a new supermarket chain. They are mainly competing with the differentiation strategy by offering sophisticated services for middle and high-income earners. The main external threat seems to be the economy as in

2009-2010 the Macedonian economy recorded -1.8 growth of GDP. This has put more pressure on the marketing department to come up with new promotional offering by attracting different types of clients.

RAM Retail, (M4, please see tab. 19) *"The economic condition is not good at all, you can see from the international publication that for the first time we have a negative GDP, and this means less money for our customers, they are becoming more price sensitive and they will shop less.*"

In order to respond to the economic conditions, the company opened new stores in different cities and positioned them with lower prices. Therefore, even in difficult conditions, the company was doing well with new stores by creating a slight increase in their revenue. According to RAM Retail, (M6, please see tab.19) "*The economy is difficult, but in the last years we have opened three markets. We kept our revenue and we have increased them."*

The competition seems to be another external threat, as the new entrant Vero supermarket chain has increased its stores and opened a Vero Shopping Mall in Skopje. RAM Retail (M5), "*The competition is increasing and we know it is going to be even more difficult in the future, especially with Vero, but at the moment everyone has its own clients, its own market presence... their shopping mall is different from ours, and it is in a different position.*"

From the observation in other stores, it seems that the company is not facing any direct competition now as other players such as Vero have just opened the store on the other side of the city. Also, the market is very fragmented, where only 30% is in the hands of retail companies and the other 70% is in hands of wholesalers and small corner shops.

Table 19: Resource Allocation: external factors for EM and RAM retail

Key Codes	Resource Allocation	Ref - Interviews
External Factors		
19.1 Economic Factors	The crisis negatively affects us. Majority of our suppliers are local suppliers, 75% of them. At the moment that we face the crisis, the raw material of the products increased and as result all the imported goods were becoming more expensive. For	A7-Ret.p2

	example, the price of rice increased dramatically by 40-50% in global market, negatively affecting our clients and us	
19.2 Economic Factors	The economic crises start firstly with retailers, so it is logical to have negative effects for EM Retail. Therefore, from there we focused on Food products, which the customer will keep buying. These are certain basic products that the customer wants, such as: bread, oil, cheese, ham, milk. So, we focused on basic products to make sure that we were as close as we could with customers in order to survive in such turbulent times.	A6-Ret.p2
19.3 Economic Factors	The financial crisis of 2009 badly hit our sales figures. Because of the crisis, many Albanian immigrants had less money to spend in their homeland. As their incomes were going low, that means less money in the Albanian economy. Therefore, indirectly the buying power of our clients was going down. For example, in 2009 we expected to open 6-8 stores, but we did not open any of them, what we did is that we closed down two stores. We did not open any stores; we just closed down two stores. The fact shows that we were badly hit.	A9-Ret.p2
19.4 Economic Factors	The economy is difficult, but in the last years, we have opened three markets. We have two markets in this mall, and we opened three new markets. So, we increased our revenue, and I cannot tell you if the economy has been badly influenced. However, new stores have been positioned with lower prices than others to be closer with our clients. As a store manager, I can see that many clients are influenced by the price factor, as the economic conditions are not very good now.	M6.p2 M5.p3
19.5 Legal Environment	The Legislation Environment is a bit problematic. If we consider the latest statistics from 2009, we have 5-6% of retail supermarket for Albania. If we consider other retail chains like EM Retail that are operating in Albania, in total the retail chains is not more then 25-30%. As a result, the rest of the retail is done with small retail shops, mainly classified as small businesses, which mean different taxation. We were taxed a lot more then small retail business as result of this situation.	A7-Ret.p2
19.6 Competition	We have seen that other competitors do not have the goods. For example, they do not have all the variety of products in shelves. Before, they used to have five types of rise, now they have only one type of rise. Focusing only on those products that are best selling.	A6-Ret.p2
19.7 Competition	There were some previous supermarkets but they were independently managed and each of them had different strategy, they just had the same brand name, but nothing else. So they were not a real supermarket chains.	A7-Ret.p1
19.8 Competition	Due to huge number of small retailers, the government finds it very difficult to control all of them and as a result, they do not collect their taxes properly. This means that we do not	A7-Ret.p2

	face a fair competition with small retailers.	
19.9 Competition	In retail, market is very competitive, there are many companies, and the most important thing is to have the best products in shelves, with the best prices that you can get. We have to react very quickly as other companies are expanding very fast.	M6.p6 M4.p2

Table 20: Summary of External Factors for EM and RAM Retail

Market Environment • Legal environment has created fragmented market and it is very difficult to expand. **Competition** • The competition between big retail stores was not the key determinant factor that influenced their low cost strategy. • The market is very fragmented, which means big opportunity for retailer to expand without competing directly with each other. **Macro Economics** • Economic Factor has a huge influence on the strategy formulation and implementation process. • The high price of raw materials, exchange rate fluctuation, has reduced customer-buying power and has re-positioned the company towards lower prices.

4.2.3 Internal Factors: Case 2.1 – EM Retail

EM is implementing low cost strategy by offering low-cost products for the mass market and by heavily competing with lower prices with other supermarket retail stores. The company invested in new technology in 2009 to standardise the ordering process to cut the ordering costs and to increase the ordering efficiency in supply chain. EM Retail was opening more than 4-5 new stores every year during 2007-2008 and it was continuously

expanding in order to increase its market presence and target the mass market. According to a retail manager, (A6-Ret.p2, table 21, 21.8, p.118) “We target mass market, but our main customer base comes from low and medium income earners.”
In addition, in order to achieve the minimum operational costs they have standardised the working process and the supply chain. After they trained the staff in these working standards, they introduced new information software to integrate the data from different supermarkets and to order automatically from suppliers. “The fact that we have 16 stores is that we have a standard movement of product chain.” (A7-Ret.p2, table 21, 21.2, p.118).

EM retail also heavily invested in a new distribution centre with modern RFID technology, for the supply chain. According to EM manager (A6-Ret, see table 21, 21.1, p.118) the company invested 6 million Euro in a brand new distribution centre, completely computerised with RFID technology with the latest software, which enables them to see the stock level from all their products. However, their main problem was that in the beginning, many staff members were not used to the new system and they did not order the right products at the right store. Many customers complained because there were no products on the shelves and store managers could not find the products in their local warehouse.
The problem was that many items were in the system, but the barcode was missing. Therefore, when store managers ordered the products in the system, it appeared that it was delivered, but in reality, the products cannot be delivered if the product does not have a barcode.

“We have very difficulties to implement the new system. We struggled for three months and we had very big problem in coordination. In our DC we have 6000 products, we knew that we will have such problems and we took action to resolve the problem.” (A6-Ret, see table 21, 21.5. p118).

4.2.4 Internal Factors: Case 2.2 – RAM Retail

RAM supermarket operates in Skopje and their main competitive advantage is that they have a perfect location in the city centre with high-end style and they continuously offer good quality products. The company was targeting medium-high income earners rather than opt to directly compete with low cost supermarkets. According to a RAM manager, (M5-Ret, see table 21, 21.9.1, p.118) “This market is mainly with high income earners with business and so one. The location of this store is in the centre and it is sophisticated. Many foreign companies and foreigners come to our shopping centre... But in Tetovo and Skopje we opened two supermarkets and we target middle and low income people, with prices where clients can afford to buy”.

Due to the financial difficulties of the FYR Macedonia, the company was carefully expanding. They planned the opening of a new store in Tetovo for two years, taking it sage and very slowly and carefully. The company preferred to consolidate the supply management first, get a customer perception high-end retail and then gradually expand in other cities by offering better prices. It was therefore clear that the consolidation of costs and stable expansion seems the right one, but not by over-stretching, but through finding a new equilibrium level based on existing number of sales and market reality. The RAM target was very clear and they did not want to be perceived as a low-cost supermarket. They built the reputation first and then offered lower prices afterwards at their new supermarket so as to create a better situation than other companies did. The customer sees it as an opportunity that needs to be utilised and the sales start gradually and expand without competing directly with other low-cost retailers.

Due to their long-term experience in Turkey, the company managers and directors were experienced with the new IT system and they reported directly to headquarters weekly on any sales and management issues. According a RAM representative, (M4-Ret.p2, table 21, 21.2, p.118) “Our general manager sees what we have to do, what we do not have to do. He reports directly in Turkey.” The supply chain is fully integrated with the latest technological software, but still during the opening period in new stores, new staff members were finding it difficult to implement the IT software and some products were missing in the supermarket shelves. To overcome such problems many staff training and managerial control techniques were introduced into the company.

Table 21 Resource Allocation: Internal factors for EM and Ram retail

Internal Factors	Resource Allocation	Ref Interviews
21.1 Standardising work processes	We have main DC valued 6 million Euro, completely computerised with RFID technology and the latest software, which enables us to see the stock live for all our products. This enables us to make the order immediately in much standardised way, which enables us to increase the efficiency. Therefore, if a store makes an order we can deliver within 1 hour.	A6-Ret.p3
21.2 Standardising work processes	The fact that we have 16 stores is that we have a standard movement of product chain. That requires detailed planning movements, which start from the buying process, paying method and so on. We consider this fact for paying the supplier… The optimisation of stock level helps us for not being debtors with our suppliers…	A7-Ret.p2
21.3 Standardising work processes	We are connected only with DC and we can order only on particular days. Then they deliver in particular days, usually before weekend. This is done to optimise the logistic and transport costs. We have integrated IT software, which shows what we are doing, how we are doing and everything is inside. Our sales figures are gone automatically from retail, we see them, and all the figures we see them in our service and all the information is sent directly to the Turkey's base. Therefore, everything is centralised and we are supervised from Turkey. Our general manager sees what we have to do what we do not have to do. He reports directly to Turkey.	A8-Ret.p2 M6-Ret.p3 M4-Ret.p2
21.4 Coordination	As far as I know the Head of Departments like Marketing, Buying and Finance were not fully coordinated and they did not fully coordinate their actions during the expansion period. It also creates problems to standardise the work process.	A9-Ret.p3
21.5 Coordination	We have many difficulties to implement the new system. We struggled for three months and we had a very big problem in coordination. In our DC, we have 6000 products, we knew that we would have such problems and we took action to resolve the problem.	A6-Ret.p3
21.6 Establish Eco. Of Scale	Yes, we used the economies of scale concept till February 2009. However, after the crisis we focused on managing costs. We analysed which were the stores that were making profits and which were the ones that were making a loss. We focused on the stores that were making a loss. We took action to improve them. We know that if we have more stores, it means more negotiation power, more sales, less logistic costs. After the crisis, the situation changed.	A6-Ret.p3

21.7 Establish Eco. Of Scale	As we were very successful in terms of sales, we had a very good bargaining power with suppliers by getting the best prices, result of economies of scale. This helped us to offer products at a very low price towards clients. For the basic products, EM Retail was 5-8% cheaper than the other supermarkets as result of huge buying volumes. Even the suppliers were ready to offer cheaper prices for us; they did not have to spend transportation cost by supplying small supermarkets one by one. When we order a particular product, we order for all our supermarkets and the supplier knows that in the near future we will get bigger.	A7-Ret.p1 M4-Ret.p2
21.8 Target the Mass Market	We target only low and medium income client, which are the mass market.	A6-Ret.p2
21.9 Target the Mass Market	We target mass market, but our main customer base comes from low and medium income earners.	A8-Ret.p2
21.9.1 Target the High Income Earners	This market is mainly with high-income earners with business and so one. The location of this store is in the centre and it is sophisticated. Many foreign companies and foreigners come to our shopping centre... However, in Tetovo and Skopje, we opened two markets and we target middle and low-income people, at prices that clients can afford to buy.	M5-Ret.p3

Table 22: Summary of Internal Factors for EM and RAM Retail

Operational Efficiency

- Standardising work processes is the first step needed before implementing the new IT technology.
- There is a need to create a new department to coordinate and share the knowledge through cross-functional team working.
- An economy-of-scale concept is very useful to a certain point. Companies cannot constantly use this concept.

Technology Utilisation

- Huge need to implement the IT technology; to standardise different working processes and to use it for reporting to the management level.

Target price Sensitive Clients

- Companies could be successful in the mass market only by offering lower prices than the existing players offer.
- When the company is identified as premium quality, any price reduction in their store is considered as a good opportunity from clients.

4.2.5 Formulation and Implementation Policies: Case 2.1 – EM Retail

The CEO plays an important role in taking the company in the right direction, but it is the middle-management team that makes things happen. In both companies, middle managers are pure implementers whereas the CEO is seen more as a planning person, who thinks more about the broad picture of the company and formulates new policies. It was the CEO who introduced new cost cutting policies to cope with economic difficulties. For instance, at EM Retail, he was the one who proposed that: all drivers that distributed goods had a fuel limit that they could spend per week and every store manager needed to buy directly (Distribution Centre) all goods that they use in store. It is the responsibility of middle manager to see if its new policy is fully implemented.

In general, we could say that store managers (middle managers) were not in direct contact with the CEO, but only through the directors. In two companies, the CEOs introduced new policies and they dealt only with senior managers. When the CEO from EM RETAIL introduced the cost saving policy, it was the store manager that analysed in details the maintenance cost, staff cost and all the other costs. The middle-management team proposed to the CEO the sector in which they could cut costs, and how they could manage them.

According to a Senior Manager at EM Retail, (A6) *"The CEO role is important as he introduced a new culture towards cost saving. A New Cost Department was created, staffs were made redundant, we stopped job duplication, and new buying policies were introduced… We optimised 80% of our costs. Meanwhile, middle managers are pure implementers. They are the one that make things work. They are closer with the market reality, as they know what to buy and when is the best time to reduce the prices."*

"Middle management has a monitoring and implementing role in any decision. He is the key person for implementing any decision from the CEO. At the Logistic department, we do not ask permission for everything, we just have to make sure that the goods are on the right quantity and they delivered on time. We need to be very flexible with our own operation and we cannot ask our CEO for everything." (EM Retail, A7).

4.2.6 Formulation and Implementation Policies: Case 2.1 – RAM Retail

In the same way as in EM retail, another person from RAM retail supported the view. (M4) at RAM Retail said, *"When the CEO puts an objective to increase the sales figure our marketing department have to make sure to print more leaflets, spend more in marketing and so on. We are organising everything. So we make budget advertising organise new activities, or lower the prices for some products."*

The CEOs were pushing their employees hard to reduce costs, and at RAM Retai, they anyone that was not needed was made redundant. It seems that the CEO created an insecure environment and a de-motivated environment for low-positioned staff members. The middle manager role was limited and CEO made all the decisions in a very similar way to RAM retail. A similar situation was also found at EM Retail. According to (EM Retail, A9, please see table 23, p.122) middle managers are more in a direct contact with clients; staff, suppliers and normally they need to be more important. *"More responsibilities should be given to them to fully implement the strategy. The company is struggling at the moment and they are following cost policies in all departments." (A9)*

It was clear that in both companies CEOs formulated the strategy and centralised all the decision-making process, starting with expenses, paying procedures and so on. They had to coordinate the work of the all departments and resolve all problems. However, this was difficult to manage at one company. This was part of their mistake to implement low cost strategy.

For instance, "*In (the) finance department there were eight people and the CEO made redundant two of them. The other two left the job because they were not sure about their job. The other four that stayed were not motivated as their wage was reduced by 10% and they had to do extra jobs and work longer. Also, at the moment there is a need for new staff at Finance Department, that means more money for training and minimum 1 year of work, until they become fully productive for the company*" (A9, please see table 23, p.122).

Due to this huge centralisation decision-making, the roles of middle managers were limited in all the companies. They just follow the CEO decisions. They had to ask their CEOs for invoice payment above 5,000 Euro. We could say that over centralisation of decisions could start to be problematic for the middle management as their authority goes to the CEOs.

Middle management needs to be flexible to adjust tactically as needed in order to achieve the required results coming from the CEO. In addition, the store managers were looking for more interdependence in their decision making process.

In such a difficult environment, it is important for the CEO to introduce a new cost policy and signal that the company needs to change. They should also gradually delegate the authority towards middle managers to implement their new policy by making it part of the company culture.

Table 23: Resource Allocation: Formulation and implementation policies for EM and RAM retail

Formulation and Implementation Policies	Resource Allocation	Ref
23.1 Leadership Role	Of course. We take the decision from him and from there they go through the head of department and we implement them…The CEO has optimised the administrative costs. Before we had internal costs for our own expenses like, diesel, soap, plastic cups, and we did not put them on the system and we did not calculate them... Then, a new department was created from my office to make sure that each store had its own products for the internal use	A6-Ret.p3
23.2 Leadership Role	His role is very important. The strategies are discussed with top managers, we talk directly and then we take decisions. When we have dramatic changes, we always discuss them together.	A7-Ret.p3
23.3 Leadership Role	His role is very important for drastic changes… I cannot tell you anything. I think he has done a new structure, where everyone knows what he is doing and knows his personal responsibilities. Therefore, we have now Operational, Buying and Administrative element division. In the beginning, we were a bit mixed up without a clear line of structure. Now things are different and every thing is done through decision chains.	A8-Ret.p2
23.4 Leadership Role & Centralisation of power	In our company, the CEO tried to concentrate everything in his hands. He centralised all decisions that were related with the expenses, paying procedures and so on. It was difficult to manage alone all expenses for all supermarkets. As he could not fully coordinate the work within the department, he had to resolve all problems alone. This was a part of his mistakes to implement his strategy...	A9-Ret.p4
23.5 Middle Management	All middle managers are implementers. For instance, I have to make sure that all suppliers are listed in the central warehouse, to	A6-Ret.p4

Role	control the stock level, keep better relationship with suppliers, and control the promotional campaign with suppliers. Therefore, my main duty is to make sure that the supply is done right.	
23.6 Middle Management Role	It is very important. It has a monitoring and implementing role in the entire given decision. For my opinion, it has a very important role. The Middle managers are the ones that look after what we are doing, I have never seen the CEO come and see what I am doing.	A7-Ret.p3 M6-p3
23.7 Middle Management Role	We implement everything what is stated from our senior managers. As a start, we have all the information from the headquarters for our profit and loss performance. We analyse the maintenance cost, and all other costs, staff costs. Therefore, we try to manage these costs as much as we can. The rest is done from senior managers… There are many things that could be done. For instance, one is to have more independent store manager, which could work with other organisational elements. This will create more independence and more responsibilities.	A8-Ret.p3
23.8 Middle Management Role	They have usually followed the CEO strategy. Even if they argued for the good of the company, they still followed what the CEO decided. Everyone followed what he said. Everyone was a bit fragile in open discussion when he/she expressed their opinions, as they were afraid of penalisation. We are responsible for our store and everything that happens inside. I have to make sure that orders are on time, analyse the store performance and manage the human resources. I have a meeting once a week with the head of department and we are in a continuous communication.	A9-Ret.p5 M5-Ret.p5
23.9 Communication	I will improve communication between stores, communication between staff and clients. Then I focus on the product offers. However, communication is the most important one that could differentiate us. The products are more or less the same; communication is the one that could differentiate us.	A6-Ret.p5
23.9.1 HRM	To implement a strategy you have to ensure the right staff. As company, we need to restructure the Human Resource Department to make sure that we have the best middle managers and best people working for us who are able to implement our strategies.	A7-Ret.p4
23.9.2 Cost Culture	The crisis has two sides of a story. I liked it because now we see all the expenses more carefully, saving energy, paper work, administrative expenses and so on. It has changed our company culture towards cost focusing. That means that everyone within the company things about costs and middle management is more efficient in their job.	A6-Ret.p5
23.9.3 Cost Culture	We are adding some extra liquidity and cutting costs by implementing a new culture where all employees focus on how to manage these costs in these difficult times.	A9-Ret.p6

Table 24: Characteristics of formulation and implementation policies at EM and RAM retail

Formulation Policies • The CEO role is very important in creating a new direction, a new culture and a new vision. • Over-centralisation could harm the company in the long run. **Implementation Policies** • Middle managers are the ones that implement the strategy. • Cost Saving Culture is the most important element to implement the low cost strategy in the end. • Reporting to the senior level is very important. • Companies should centralise the decision making process in difficult times and gradually pass the authority towards the middle management

4.3 Analysis

The economic environment in Albania and Macedonia was not very good after 2008, due to the world financial crises. The GDP growth drastically reduced in both countries and the inflation rate started to increase slightly. The external environment in both markets was very similar, but EM and RAM retail formulated and implemented a slightly different strategy. EM retail decided to continue with its expansion plan and focus on basic products with affordable prices in order to increase market share, but the profit margins were extremely low and the company started to have financial liquidity problems. On the other hand, RAM supermarket retail was expanding very slowly and they opened only a limited number of supermarkets, after a thorough analysis. They were not rushing to increase their market share, as they preferred to consolidate their position and increase the market share slowly.

EM is implementing cost leadership strategy, whereas RAM retail was using a differentiation strategy based on good services. As far as operational efficiency goes, both companies mentioned that technology plays the most important role in standardising supply chain management, from buying to the selling point. The human contact during the ordering process was kept low. The automatic response allowed EM Retail and RAM Retail to keep the minimum level of stock, respond quickly to clients, optimise transportation costs, and manage their liquidity better. The operational efficiency was done through a standardised decision-making process for orders and by having clear staff division for food and non-food products.

“We invest 6 million Euro at our new distribution centre (DC) for RFID supply management. The store managers can order from the DC only in particular days to optimise transport costs. The whole ordering process from suppliers to customers is fully automated.” (EM Retail, A9).

In addition, the other company RAM retail admits that technology plays a major role towards standardisation of process and reporting to superiors.

“We have integrated IT software, which shows what are we doing, how we do and everything. Our sales figures are done automatically from retail, we see them, and we send them directly to Turkey base.” (RAM retail, M6).

The technology has enabled all companies to introduce better offers for particular goods and see whether their offers convinced their clients. By doing this, they closely analysed the customer perception and constantly refocused on those products that they preferred.

However, it was very difficult for both companies to implement a new IT system as it takes time, extensive training and huge investment. The basic requirement for both retailers was to have standardised work processes within the department and coordinates all departments work under one organisational structure.

In addition, it was evident that implementing a new IT technology was a very difficult task in terms of work coordination for all departments and in terms of time. During the implementation process, there were huge difficulties, as the purchasing department did not list many products in the IT system because of the data input mistakes by employees. This created shortages of stock on the retail shelves and the problem was realised only when the shelves were completely empty.

The problem was evident at EM Retail in more than 11 retail stores and at RAM retail in one store. The heads of department focused mainly on the IT system for several months to make sure that all goods were on the database and on the shelves. To fully implement the new technology the company outsourced companies to train their store managers, purchasing department and operation department. EM retail spent more than 200,000 Euros on the training program and it took more than seven months to fully implement it, and RAM retail spent more than 110,000 Euro.

All companies were struggling in the first months of the implementation process, as there was a clear lack of coordination within the administration. Purchasing, marketing, and finance departments were not coordinating their activities during the expansion plan. There was no brainstorming between departments for new marketing activities or expansion plan. In addition, many shelves were kept empty whereas the goods were in the warehouse. Some of the products were sold at very cheap prices, as the input figures were wrong.

All store managers at the two retail companies mentioned that in such a difficult environment where sales figures are under threat, companies might find it difficult to implement new IT systems. This is because it requires huge amounts of investment for technology and training. Also, it requires a stable environment where everyone within the company focuses on the system and not on sales figures. In addition to technology, RAM and EM retail implemented the economies-of-scale concept, mainly during the expansion strategy. The idea was to reduce the operational costs by having only one DC, which supplies all stores, and gradually increasing the number of sales by opening more stores. In the mean time, they increased the product variety and targeted the mass market. Therefore, as the sales increased the fixed cost started to decrease.

It was a very good way to expand through the economies-of-scale concept, but not in difficult times when customers do not have the money to spend.

EM Retail's strategy was to utilise this concept by opening more than five stores in Tirana within a year, and RAM retail opened two stores in Skopje. The idea was to have more bargaining power with suppliers and pressure them to get cheaper prices for same products and become more competitive in market. With such strategy, companies were trying to increase their sales and reduce the warehouse and ordering costs gradually and they had good financial support from their parent companies.

However, all companies find it very difficult to buy directly from manufacturers because in most cases, big branded companies have their official distributors and they cannot buy in big quantities, but rather just in time delivery. Many suppliers of EM Retail and different official distributors did not accept the new contract and they stopped supplying the company. The new retail shops missed their sales target by 40% as a result of the economic crisis and the company did not have the expected bargaining power with its suppliers. The picture was more stable at RAM retail, as they planned the new stores two years in advance, and they were expanding slowly but very secure in the retail market. It was therefore clear that the consolidation of costs and stable expansion seem the right

one, but not by over-stretching, but through finding a new equilibrium level based on the existing number of sales and market reality.
Targeting seems to be another important factor that companies need to consider when they implement cost-cutting policies or cost leadership strategy. EM Retail was targeting VIP companies, which buy in bulk. They offered 5% of all companies that were periodically buying from them. They tried to be as wide as possible by targeting individuals, companies, schools, and governmental institutions. However, still they were targeting the mass market in the wrong time.
RAM retail was mainly targeting middle-high income earners with good services and variety of products. The company target was very clear and they did not want to be seen as a low cost company. This is the main reason that when the company offered lower prices at their new supermarket store it had a bigger effect than it did for other companies. The customer sees it as an opportunity that needs to be utilised.

The CEOs in both companies were giving very ambitious sales targets and everyone had to work hard to achieve them. In terms of managerial policies, in both companies the role of CEOs was very important whereas the middle managers had limited access in the decision making process. This was partly because of the highly standardised working process with new technological software that has diminished the role and importance of middle managers and increased the role of CEOs as they had centralised information for everything.

Table 25: Conclusion: Findings of the research for retail companies

External Factors for EM and RAM Retail **Market Environment** • Legal environment has created fragmented market and it is very difficult to expand. **Competition** • The competition between big retail stores was not the key determinant factor that influenced their low cost strategy. • The market is very fragmented, which means big opportunity for retailers to expand without competing directly with each other. **Macro Economics** • Economic Factor has a huge influence on the strategy formulation and implementation process. • The high price of raw materials, exchange rate fluctuation, has reduced customer-buying power and has re-positioned the company towards lower prices.
Internal Factors **Operational Efficiency** • Standardising the work processes is the first step needed before implementing the new IT technology. • There is a need to create a new department to coordinate and share the knowledge through cross-functional team working. • An economy-of-scale concept is a very useful to a certain point. Companies cannot constantly use this concept. **Technology Utilisation** • Huge need to implement the IT technology, to standardise different working processes and to use it for reporting to the management level. **Target price Sensitive Clients** • Companies could be successful in the mass market only by offering lower prices than existing players offer. • When the company is identified as premium quality, any price reduction in their store is considered as a good opportunity from clients.
Formulation Policies • The CEO role is very important to create a new direction, a new culture and a new vision. • Over-centralisation could harm the company in the long run. **Implementation Policies** • Middle managers are the one that implement the strategy. • Cost-saving culture is the most important element to implement the low cost strategy in the end. • Reporting towards the senior level is very important. • Companies should centralise the decision making process in difficult times and gradually pass the authority towards middle management.

4.3 Case 3: Mobile Telecommunication

4.3.1 Background Information

Case 3.1 – AM MOBILE

In 1996 the AM MOBILE was the only operator in the market. In 2000, it was privatised and sold to C group (Greek company). In 2009, the company had more then 50% of market share, 1.3 million subscribers, with annual turnover of 176.2 million Euro in 2007 and with more than 500 people employed (AMC, 2009). However, in late 2009 its fourth-quarter revenue dropped by 38% to EUR 29.2 million. The company has only 34% of the market share in 2012 compared with 50% in 2009 (AKEP, 2012). The key negative factors were: devaluation of Lek currency, increased competition, and new regulations from government on price methods.

After extensive market research in 2009, senior managers decided to introduce a new strategy, targeting mainly youth customers. The main aim is to reposition their brand closer to the customer and focus more towards supportive services. It is also the worldwide trend in mobile industry. Remaining market leader is becoming the main aim of the company. Intensive marketing campaigns and better services for customers seem to be the right solution. By offering good service and coverage network, AM MOBILE is implementing a differential strategy to customers. They also compete in terms of HR management by having more employees than other companies; more staff means better service for their clients and faster response towards them.

Even in such a difficult environment the company is still recruiting more employees than ever before, they are investing towards training and better quality services. The aim is to improve the service quality and differentiate from competitors. At the moment, AM MOBILE has 550 employees whereas other competitors, such as Vodafone, have 320 employees and EG Mobile a bit less than 300 employees.

As the competition increases, the company is spending a huge amount of money targeting the youth market, as young clients are more likely to change the company through innovative ideas. The businesses sector seems to be more loyal toward the brand and they do not prefer to change their phone numbers.

AM MOBILE is a technological company and they innovate their tools from time to time in order to offer extra services. All new services are based on extensive market research. It is very important to stay close to the competitors and customers because they constantly change every month.

Case 3.2 – VM Mobile

VM mobile operates in Macedonia as a third company and it is part of Telekom Austria, which has round 20 million customers in eight countries, mainly in South East Europe (Vip, 2010:1). As a third player, VM competed with other companies mainly with better prices and simplified products, which enabled the company to increase its market share from 10.7% to 16%, between 2008 and 2009 (Vip, 2010). Due to their attractive offers for prepaid and contract customers, the company had more than 300,000 subscribers within a year, and 21.7 million Euro of revenue (Vip, 2010). Their focus is lowering all possible costs and focusing on efficiency like EG mobile.

4.3.2 External Factors: mobile companies

Before the privatisation, Albanian and Macedonian Telecom could not face the flux of telecommunication expansion; AMC MOBILE and T MOBILE, got the main market shares in Albania and Macedonia. During the first years of operation, both companies offered only voice calls and then slowly offered extra services.

These two companies dominated the mobile telecommunication industry in these countries for several years. The competition gradually increased, as new operators entered in each market. Each company was offering different products to the clients. In 2008, the entrance of third operators, EG in Albania and VM Mobil in Macedonia, changed the business environment as the new companies introduced the latest technology and reduced the service price by 20%. They also used very aggressive marketing campaigns, dominating every media, radio, newspaper through different promotional offers.

With the entrance of the new operators, the industry became very competitive and companies were formulating new strategy to respond to the market. Therefore, whatever the market leaders do the other two companies either follow them or try to be ahead of them. There is a very dynamic relationship among companies. It is not exactly a saturated market, but it is starting to become very mature and companies will formulate and implement new strategy from time to time. So, competition is very hard right now where

new entrants compete with low cost strategy and market leaders try to reduce costs, but focuses more on innovative services.
From various interviews with different staff members, we can see that the all confirmed that competition is very intense in the mobile industry.

“What competitors do is extremely important for us and what we do is also important for them. The telecommunication market is a very competitive market. So whatever one does the other two companies will either follow or try to be ahead.” (A12-Mob.p1, see Table 26, p.133)

“Absolutely yes. Competition is a direct factor that has influenced on us.” (A13-Mob.p2, see Table 26, p.133).

“I think that number portability law has definitively created price wars, it is becoming significantly overemphasising on price. The price is becoming the main tool of the players.” (M9Mob.p5, see Table 26, p.133).

“The competition from the third competitor is a lot more aggressive than the second one. They reduced the price a lot more than others did. Even though they do not have a good coverage, the low-income earners still aim to have cheap services.” (A14-Mob.p2, see Table 26, p.133).

In general, telecommunication is a very dynamic market. They use extensive market research and they immediately understand their mistakes. Likewise, they constantly change their strategies. There are not given things in this industry. If something goes wrong today, tomorrow it needs to be fixed. This happens at all levels. It is very dynamic in all departments, such as marketing, PR and technology. VM Mobile strategy was to reduce the price at the beginning through low cost strategy and then gradually increase the price by introducing new services. In general, there is the tendency of price reduction, but AM MOBILE was not panicking; they are not following the low cost strategy by reducing the prices as they have more employees and huge investment costs in technology. The existing company (AM MOBILE,) is mostly competing with better services. They reduced the prices, but they focused more on customer service by increasing the number of employees.

In terms of legislation, all companies have been affected by ERT (telecommunication regulator) especially in the last year, where they reduced them by a small percentage. Also, the new legislative law in Albania and Macedonia for customer number portability had a huge effect on the market leaders (AM Mobile) as customers can keep their number and they can easily change their mobile provider. It is clear that customers will have more choice and greater flexibility when changing companies. The number portability law seems to be the biggest external change towards strategy formulation and implementation. According to different staff members from both companies, we can say that number portability was a huge change in the external business environment:

“The new legislation that is being planned to be implemented will have huge effect on us. The Number Portability law will influence us… Number portability will be the biggest environmental change. It will increase the direct competition even more than now.” (A13Mob.p2, see Table 26, p.133).

“The government has surprisingly created a good environment of our company, it has liberalised the market and it has created more opportunities for us.” (M12Mob.p6, see Table 26. p.133).

In 2011, the governments of Albanian and FYR Macedonia fully implemented the number portability service for mobile clients.

The economic environment seems to be a less important factor for mobile providers, but still the devaluation of LEK currency in 2010 by 10% means that all companies have 10% less on their income statements. Whereas in Macedonia the exchange rate was very stable and it did not create any problem as the Dinar currency was pegged with Euro. All companies accepted the fact that the economic crisis has not affected their sales much. It is mainly the competition and new (legislative) law on number portability that seems to be the key driver of change towards company strategy. Older users are not used to changing mobile providers, this is because they have family connections abroad, especially in rural areas. They do not want to change the mobile providers and it is difficult to convince them.
The youth segment is very open to changing numbers and gain from different offers. With the entrance of VM Mobile into the market, the other market leaders, T-Mobile, was forced to reduce prices and start to invest in new services. Not all companies want to create the

impression of being cheap mobile providers who implement only low cost strategy but they prefer to offer more time for the same amount of money.

Table 26: Resource Allocation: external factors at AM and VM mobile

Key Codes	Resource Allocation	Ref - Interviews
External Factors		
Competition	What competitors do is extremely important for us and what we do is also important for them. The telecommunication market is a very competitive market. So whatever one do the other two companies will either follow or try to be ahead. There is a very dynamic relationship between the three companies. It is not exactly a saturated market. But, it is starting to become very mature. Therefore, competition is very hard right now.	A12-Mob.p1
Competition	Absolutely yes. Competition is a direct factor that has influenced on us.	A13-Mob.p2
Competition	The competition from the third competitor is a lot more aggressive then the second one. They reduced the price a lot more then others. Even thought they do not have a good coverage, the low-income earners still aim to have cheap services.	A14-Mob.p2
Competition	......We are already in a price war.... I think that number portability law has definitively created price wars, it is becoming significantly over emphasising on price. The price is becoming the main tool of the players.	M7Mob.p4 M9Mob.p5
Economic Factors	I do not have any exact information, but as far as I know, we are not directly hit. In our Sales Departments, which deals with contracts and pre-paid clients, we have increased our sales. Even in these difficult times, we have increased our sales target and some of our customers achieved their target by more than 200%. I would say the opposite, the economic crises has helped us to perform better, as the customer are becoming more price sensitive, but as we have the price positioned from the beginning it has helped us to be closer with our customer than other companies.	A13Mob.p2 M7Mob.p2
Legal Environment -Market Liberalisatio n	The new legislation that is being planned to be implemented will have huge effect on us. The Number Portability law will influence us…The Number Portability will be the biggest environmental change. It will increase the direct competition even more then now. ... we have the profited most from number portability law. It has damaged the first and the second player, but it has been in our benefit.	A13Mob.p2 M7Mob.p5

	The Government surprisingly has created good environment of our company, it has liberalised the market and it has created more opportunity for us. The business law was a good advantage, as the number portability made it easier for clients to change operators, and this put in advantages as customers from other companies can come to our company without changing the phone number.	M9Mob.p4 M12Mob.p6
Legal Environment -Market Liberalisation	In terms of legislation, we have been affected from ERT (telecommunication regulator) especially in the last year, where they tried to re-structure the prices. The Government decided that prices need to be communicated with all taxes. So now the tariffs need to be communicated with final prices. For us it would be a problem, as we have invested a lot in fixing and communicating the present prices, but now everything changes. We are scared that the customer may not like it.	A14Mob.p1 M9Mob.p2
Legal Environment -Market Liberalisation	Therefore, we have been living in partial regulated market for two years. We have seen it in our work and in the whole market by lowering the prices and so on. They are not trying to regulate only us but the whole industry	A12Mob.p1

Table 27: Summary of External Factors for AM and VM Mobile

Competition

- There is a very dynamic relationship between the three companies (AMC, Vodafone and Eagle Mobile)
- Competition is the factor that influences the implementation process

Market Environment

- Government constantly regulates the market and introduces new laws that have an influence on strategy
- There is huge difference between old and young customers. The first group of customers tends to be very loyal with their brand whereas young customers prefer to change and experience different companies.

Macro Economics

- The economic environment seems to have an influence only in exchange rate, but not on sales figures.
- The economic environment has made third players to become more close with low income earners

4.3.3 Internal Factors: Case 3.1 – AM MOBILE

AM MOBILE changed their slogan from “It is good to be the first” to “We see the world as you do”. It seems that they no longer want to have the leader ego, but they want to be more realistic and try to understand what the customers’ needs are. The AM MOBILE strategy focuses on customer care, good sales team and good distribution network in all the main cities.

Operational Efficiency

AM MOBILE is the market leader in Albania, but started to reduce costs gradually after 2012, once the technological costs and expansion plan reached their end. According to a manager (A12Mob.p1, Table 28. p.138): “We have done extensive research in 2009 and we have seen that in some areas we are not doing well. So, we decided that after lots of work for half a year, together with other agencies and research, we decided to change our slogan and change our brand positioning.”

After 2012, the company formulated a new plan to reduce the number of employees but focus more on their commercial staff for customer retained schemes. In addition, they have reduced overtime costs at the minimum. Due to domestic legislation, they cannot change the wage, but the can lower their overtime costs. Work productivity and efficiency tend to increase once the employees realise that they have limited time to accomplish their duties.

A AM Mobile employee said, “*In my department we have less people, so the number of people that are working in each activity is kept minimum. So, one person is working in a number of fields. For instance, my job description is on internet, data, clients*” (M9Mob.p3, Table 28, p.138).

In the mobile industry, investment in technology is considered as the most important factor, which enables the company to keep the costs down. Nokia is implementing some new hardware that reduces costs, and introduces better technology and a friendly environment.

Nevertheless, AM MOBILE does not have the cost cutting strategy for each department. When the CEO formulates the strategy and sets the target, each department has a different percentage of cutting costs. It depends more on the needs of the company. For instance, the marketing department was in the biggest need compared with other departments and they did not set any cost cutting target for them. The same goes for the IT department as they need to be prepared for new technology 3G, and they also need to spend more. Therefore, it is not about cost cutting, but it is about how to meet the target.

It needs to be emphasised that the mobile industry is a technological business and all their processes are linked through technology. This is one of the main reasons that technology remains one of the most important competitive tools. If it is not working properly, the entire system fails.

Technical parts need to be updated from time to time, mainly through outsourcing companies. Software updates, marketing and other services are some elements that they outsourced. In the telecommunication industry you cannot rely on just one strategy and providers constantly need to change. According to an IT manager at AM Mobile: “The technical part needs to be updated from time to time. We have outsourced companies that deal with software updating like SAP and things like that. We are very successful. Sometime we can have problems, for instance the database or system could shut down. In this case, the AM MOBILE response is immediate.” (A13Mob.p3, Table 28, p.138).

In addition, the economies-of scale-concept is present in the technological investments as there is huge initial investment and when customer number increases, the cost per unit dramatically decreases.

Targeting:

Companies are not only targeting the mass market, but also businesses and individuals through contract packages and pre-paid offers. They also have customised packages for their clients. Usually the sales team gets the customer reports, analyses all expenditures and suggests the best package for their needs. They try to directly contact their clients and offer the best contract. Therefore, the sales team does not only sell pre-paid packages, but they also support their clients at any time.

4.3.4 Internal Factors: Case 3.2 – VM Mobile

VM Mobile is positioned in low cost strategy in the Macedonian market, as they are the third company, which entered the market, and it seems that it is the only way in which it can gain the market share.

Operational Efficiency

All services were offered at the lowest possible price towards clients by making certain profit margins. They are very careful with cost and they establish a balance scorecard analysis for each service to become cost focused in all services.

It seems that their main competitive advantage is the positioning as low cost in the market and the way that they differentiate such strategy compared with other companies. If we compare them with other companies in the market, we can see that TM Mobile is high quality but not much on price. VM Mobile has a strategy control department that analyses case by case any company policy to be introduced and see if there is a cost efficiency practice. Then they organise the reports, control the costs and see how the policies are implemented. They are administrative controllers and report orientated. If they would see something, which is not performing well, they will report, and explain it to the management. In each department, they have less people, so the number of people that are working in each activity is kept in minimum. Each person is working in a number of fields, whereas in other operators like TM Mobile it is not like that. For instance, a marketing assistance will cover internet research, data analysis and client relationships. Therefore, they are covering many functions to keep the efficiency as much as they can by giving more responsibility to employees.

A staff member at VM Mobile said, "In my department we have less people, so the number of people that are working in each activity is kept minimum. Therefore, one person is working in a number of fields. For instance, my job description is on internet, data, and clients." (M9Mob.p3, see Table 28, p.138).

The company operates mostly for the potential customer and the decision-making process based on the low cost strategy. They will not invest in network infrastructure or other services if the number of potential customers is not high. They are more likely to borrow the network service in less populated areas to keep to the minimum level of costs and increase the efficiency.

According to a manager at VM Mobile: "The most expensive service is the internet service and we outsource other services from other companies, from our competitors. The idea is that we want to keep cost down." M11Mob.p3, see Table28, p.138).

The economics-of-scale concept help companies benefiting once they sign contracts with big suppliers. A member of staff at VM Mobile also highlighted this, "We always use this concept and we implement through order that the main group does. So we are enjoying the benefits of the group once they make contracts with big suppliers." M7Mob.p.5, Table 28, p.138).

Targeting

The company targets mainly low-medium customers who are more price sensitive than others. They are focusing mainly in the pre-paid market and, after the number portability law, they are now focusing more on the business sector by offering retention customer programmes. They are trying to target the mass market to get as many clients as they can.

Table 28: Resource Allocation: internal factors at AM and VM mobile

Internal Factors	Resource Allocation	Ref - Interviews
Market Research	We have done extensive research in 2009 and we have seen that in some areas we are not doing well. Therefore, we decided that after lots of work for half a year, together with other agencies and research, we decided to change our slogan and change our brand positioning.	A12Mob.p1
	… we have to be able to be reliable in the market. We check the customer satisfaction of our products and other competitors. We also do destinations, results and measures for marketing and sales figures.	M12Mob.p3
Market Research	I think the company needs to have very good information of what is happening in the market. You need to have good market research, to see what are market needs and where are competitors. This is the base from where you start your strategy. If you do not know: where the market is and where the competitors are, it is very likely that the strategy will fail as you do not know what to offer	A13Mob.p5
Innovation and Technology	right now Nokia is implementing some new hardware that cut down the costs and it is a technology innovative. These	A12Mob.p3

	two things go together. It is also environmental friendly	
Innovation and Technology	The thing is that telecommunication is a very dynamic market, and we do not have the privilege of time to do mistakes. We understand our mistakes immediately, so we constantly change our strategies. There are not given things in our industry. If something goes wrong today, tomorrow it is fixed.	A12Mob.p4
Innovation and Technology	The technical parts need to be updated from time to time. We have outsourced companies that deal with software updating like SAP and things like that. We are very successful. Sometime we can have problems, for instance the database or system could shut down. In this case, the AM MOBILE response is immediate.	A13Mob.p3
Innovation and Technology	Continuously innovating the whole processes. The innovation needs to be new for the client.	A14Mob.p4
Target–mass market	We target Mass market. Everyone…. We do everything to communicate with everyone.	A12Mob.p2
Target–mass market	We have 2 departments that deal with business sales and individual sales. Therefore, we are focusing on all types of clients.	A13Mob.p3
Target–mass market	We are targeting mass market by offering particular products to satisfy different customer needs. Lately, we won the tender for governmental institutions.	A15Mob.p3
Target–mass market	We are targeting the mass market, consisting of mainly low-middle income earners.	M9Mob.p3
Coordination-Communication-Cooperation	As a HR person, I like the idea of flexibility. The Albanian company needs to be part of this concept like other world companies	A13Mob.p5
Coordination-Communication-Cooperation	Last week one of technical engineers from the outsourced company pressed wrongly the baton and the all system was shut down for two minutes. The image that we do not have service for two minutes is a very bad signal to our customer. This shows how important it is to have everything linked together where everyone communicates with each other.	A13Mob.p3
Economies of Scale	We always use this concept and we implement through order that the main group does. Therefore, we are enjoying the benefits of the group once they make contracts with big suppliers.	M7Mob.p.5
Minimal Level of Cost	In my department, we have less people, so the number of people that are working in each activity is kept minimum. Therefore, one person is working in a number of fields. ..For instance, my job description is on internet, data, and clients. In our company, we have a strategy controller department, which organises everything, reports, costs and targets. They are the administrative controller, cost control and report; they do what they are supposed to do. If they would see something that will not go well, they will report, and explain to the management	M9Mob.p3 M7Mob.p2

	Therefore, we build where we have potential customer, and all the decisions need to be cost effective. This is the best efficient way. It is much cheaper for us. … at any time that we see something we have to analyse the case and see if there is cost efficiency. *The most expensive service is the internet service and we outsource other services from other companies, from our competitors. The idea is that we want to keep costs down*	M12Mob.p3 M7Mob.p2 M11Mob.p3

Table 29: Summary of Internal Factors for AM and VM Mobile

Operational Efficiency

- Companies need to organise extensive market research to understand customer's needs
- Keep the minimum level of cost in each activity, by creating clear cost benefit analysis for each strategic option.
- Departmental work needs to be fully coordinated through cross-functional teams

Technology Utilisation

- Invest in new technology and integrated software to constantly reduce the price
- Create new technical team to insure the implementation of the new technology
- Constantly innovate and offer new services

Target Price Sensitive Clients

- Target the mass market by offering specific services which satisfy the youth segment and specific services offers, which satisfy the business segment
- Establish and gain from the economies-of-scale concept
- Retention plan seems the only solution to keep customers

4.3.5 Formulation and Implementation Policies: Case 3.1 – AM MOBILE

The CEO has a very important role in the company and he has been the leading figure for more than 10 years. Usually he takes into account the director's opinion and then he makes the decision for formulating the strategy. The company does not only follow its local strategy, but also the general strategy of the group (AM MOBILE – is part of Deutsche-Telecom). The CEO directs the company, whereas middle managers implement the strategy. For instance, the CEO set a target and middle management has to implement the necessary strategies to reach the target. Therefore, he has nothing to do with implementation other than following up of what middle managers do.

"It is a top management level job to think and create the strategy, such as technology and so on. He brings his own strategy. The CEO is not implementing the strategy. The CEO gives us the targets and we have to implement the necessary strategies to reach the targets. This is how the CEO works in a big corporation. So he has nothing to do with implementation other than following up of what we do." Senior Manager at AM Mobile, A12Mob.p3, see Table 30, p.143).

It is a top management job to think and formulate the strategy for technology and so on. He is the one, who brings his own strategy, whereas middle management implements it by achieving the targets. In addition, the organisational structure is kept very simple and the CEO is in a direct contact with divisional directors or managers. Middle managers implement all strategies, for instance, if a new strategy is introduced, the marketing and technical department need to implement it. Even if the strategy is adjusted, they still take permission from senior managers.

In general, there is good cooperation between both sides. None of them can work alone. Therefore, their work is interlinked. The CEO needs to explain his strategy in a effective way, and the middle managers need to understand it and make it work. They have structured department where everyone is responsible for their tasks. However, due to industry dynamics the organisational structure tends to be flexible to deal with different customer's needs. When there is a change, because of competition, they create new teams; they talk together, restructure and make things run.

For instance, when the deputy manager gets the target, there is one more level above him. He discusses with his director, and then he goes and talks directly with middle managers, people who report to him and explains to them: how they should implement the strategy to achieve these particular targets. They know the targets, they know the strategy, but in the meantime, they have an input in strategy. They are not passive employees, in some cases they have a say during the decision making process. Middle managers can make suggestions and senior managers can change the policies.

According to a senior manager at AM Mobile, “I go and talk to my Middle Managers, to people who report to me and explain to them: how we have to implement this strategy to achieve these particular targets. They know the targets; they know the strategy. They have an input in strategy. They are not passive receivers. They can say: ‘it is a great idea’”, they can say: ‘it is a terrible idea’. They can make suggestions and we can change things.” A12Mob.p3, Table 30, p.143).

Once the senior manager knows that everyone is on the same side, they implement the strategy and they report to their senior managers. The majority of tasks are outsourcing services so they need to monitor how companies are following their tasks.

If something does not work, the company has its own mechanisms to find out. For example, at their daily operations they have reports from their customer care about customer complaints, which is only one part of their operations. Therefore, if a customer were overcharged as result of technical problems, the technical department would immediately resolve the problem.

In addition, if the rating campaign is not doing well, the company organises a monthly survey to find out what went wrong and immediately change them. It is very dynamic business and middle managers know that the system is self-monitoring them.

4.3.6 Formulation and Implementation Policies: Case 3.2 – VM MOBILE

VM Mobile is a small company with only 250 employees and a very open structure towards the staff. The CEO sets the goal for each department and the unit manager implements the strategy. The role of the middle managers is to find ways to achieve their given target and, as a result, they are the most important people in the implementation process. For instance, when the company wanted to increase business clients, middle managers had to buy new Blackberry phones and avoid the disturbance of the CEO for such tasks.

Therefore, the middle manager has to make sure that everything is fully carried out and the CEO's objectives are achieved. The company does not have a top-down approach, but they tend to create an open environment, where all employees and middle managers introduce their ways to achieve the strategy.

According to a manager at VM Mobile, "We give huge importance to the Middle Managers' role. The organisational structure is very flexible in order to be as close as it can to middle managers. The directors create the policy and the middle managers implement everything. For example, the middle managers did the last project that deals with job description and performance." A13 Mob.p4, Table 30, p.143).

In the end, the CEO explores different opinions and proposals and he makes a final decision for the strategy. In general, the company has a very open culture and an open structure where everyone takes part in the strategy development process. However, the main difficulties to implementing a strategy remain internally in terms of educating everyone in the new refresh strategy. For instance, they noticed that some employees were not working on their care strategy. "The corporate communication department found out that they had weaknesses and they decided to do intensive training to explain to customers in a more technical aspect why their operator drooped and what should they do. It was very good approach as they were trying to keep everyone on track." (Middle Manager, M9.p4, table 30).

Table 30: Resource Allocation: Formulation and Implementation policies at AM and VM mobile

Formulation and Implementation Policies	Resource Allocation	Ref - Interviews
Leadership Role	It is the top management-level job to think and create the strategy, such as technology and so on. He brings his own strategy. The CEO is not implementing the strategy. The CEO gives us the targets and we have to implement the necessary strategies to reach the targets. This is how the CEO works in big corporation. Therefore, he has nothing to do with implementation other than following up of what we do.	A12Mob.p3
Leadership Role	He is very active and open-minded with all employees. Everyone knows him. The price tariffs and similar policies like them always need to get his approval.	A13Mob.p4
Leadership Role	He has a very important role. Usually he takes into account the	A14Mob.p3

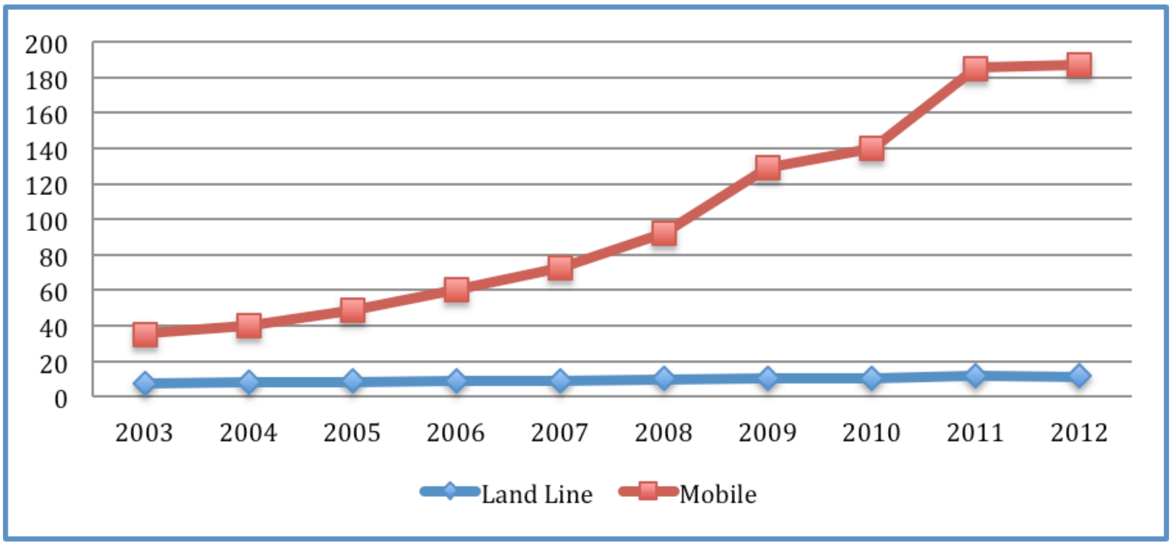
	directors opinion and then he makes the decision. When the new strategies are taken, we consider the strategy of the whole Cosmote Group (part of Deutsche-Telecom). Not only the strategy of Cosmote in Albania	
Leadership Role	The CEO has a very important role, which deals mainly with the formulation of strategy, and he has periodic meetings with the directors of the company to review the stated objectives. He has to make sure that all resources are well managed. He sets the goals for each department and the manager for each unit has to achieve it. Every person has a senior manager to report to, and the leader of all is the CEO. He achieves his goal through the people, and everyone has to take a part.	A17Mob.p4 M7Mob.p4 M9Mob.p4
Middle Manager Role	Then I go and talk to my middle managers, to people who report to me and explain to them: how we have to implement this strategy to achieve these particular targets. They know the targets and, they know the strategy. They have an input in strategy. They are not passive receivers. They can say: “It is a great idea”. They can say, “It is a terrible idea”. They can make suggestions and we can change things. We are very flexible with these things. We listen to all of them. Once we know that everyone stands in same side, they have to implement within their reports, all different tasks, mainly daily tasks A12Mob.p3	A12Mob.p3
Middle Manager Role	We give huge importance to the Middle Manager’s role. The organisational structure is very flexible in order to be as close as it can with middle managers. The directors create the policy and the middle managers implement everything. For example, the middle managers did the last project that deals with job description and performance.	A13Mob.p4
Middle Manager Role	For instance, the new strategy needs to be supported by each department and from the technical staff… There is a good cooperation between both parts. None of them can work alone. Therefore, their work is interlinked. The CEO needs to explain its strategy in a good way, the middle managers need to understand it well and they need to make it work. We have a very open culture in the company, where the middle manager shows the ways to achieve the strategy and the CEO analyses and takes a decision. All the employees were in the same room. Therefore, they have to feel that everyone is part, to understand what we are trying to do. It was a very good idea that everyone is in the same room. Therefore, it is a very important factor to motivate everyone.	A14Mob.p14 M7Mob.p4 M9Mob.p4
Middle Manager Role	Middle managers find ways to achieve their given target. They are the ones who need to implement different policies to achieve the target. They are the most important ones for the implementation process	M7Mob.p4

4.4 Analysis

From these two different cases in the mobile telecommunication industry, we can see many similarities and differences between AM Mobile in Albania and VM Mobile in FYR Macedonia. The main similarity is the fact that the external business environment and competition is very intensive in both companies because of the number portability law, which has enabled clients to change between different providers by keeping the same phone number. As competition increases companies are looking for new ways to cut operational costs and gradually offer new innovative services. However, in the older customer group the number portability did not have any affect as the customers preferred to be loyal to the company without considering financial incentives. In addition, the entrance of third operators in Albania and Macedonia markets has further increased the competition as they drastically reduced the price.

Even though the regional economy was not performing well, due to the financial crises, none of the companies' members mentioned the economic environment as causing problems for their business. Referring to government regulator reports, AKEP (2012), the penetration of mobile phones in Albania has drastically increased especially after 2008 (please see the figure 9). This high growth creates more market opportunities for new companies to expand by implementing low cost strategy. They can compete directly for customers through number portability legislation and introduce better offers with more operational efficiency.

Figure 9: The Penetration growth of mobile phone and landline 2003 – 2012 (% rate)

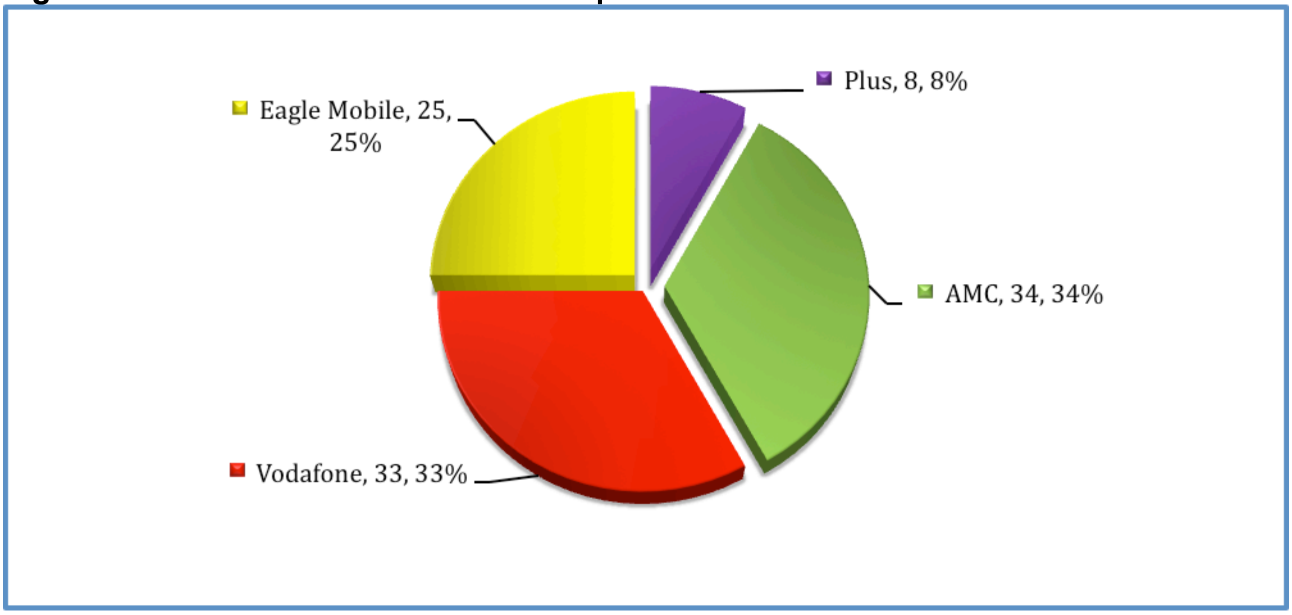


Source: AKEP (2012), http://www.akep.al/images/stories/AKEP/statistika/TREGUESIT_STATISTIKORE-_6_MUJORI-I-2012.pdf ,The number of inhabitants in Albania is according to Instat (Census 2011)

Only AM mobile had a short-term impact on exchange rate fluctuation between the LEK and the Euro, but after a year, everything was stable. In terms of internal organisation, both companies were heavily focusing on market research to better understand customer needs and to see whether they can offer first what customers want. Both companies were investing in innovative technology, but AM Mobile was investing a lot more in 3G services, as they were simply a bigger company, which focused on quality service, whereas VM Mobile tended to rent important services and to invest for the 3G licence.

Their different strategies were also apparent from where AM Mobile focused more on differentiation strategy, whereas VM Mobile focused more on a low cost strategy. For instance, the number of employees is kept at minimum at the VM Mobile and each employee needs to work in different projects and departments just to make sure that the costs are kept low. On the other hand, at AM Mobile there was a longer-term plan to cut costs, but not a direct policy to base the decision making process on cost policy. This is because AM Mobile is a bigger company and a market leader, whereas VM Mobile is a smaller company and a follower. But if we compare the market results, we can see that AM Mobile's market shares has fallen from 50% in 2007 to 33% in 2012 (AKEP, 2012, see Figure 10) and on the other hand, VM market share went from 21.5% in 2011 to 26.1 % in 2012 (Telekom Austria, 2012).

Figure 10: Market Share of Mobile Companies in Albania 2012



Source: AKEP 2012: http://www.akep.al/images/stories/AKEP/statistika/TREGUESIT_STATISTIKORE-_6_MUJORI-I-2012.pdf

One of the factors that have contributed to these changes in the market shares is also the implementation policy. AM Mobile followed a more structural organisational approach, where the CEO introduces the policies and deputy CEOs communicate middle managers to implement the policy. From the interviews with different managers at AM Mobile we can say that middle managers participated in the decision-making process but there was no evidence whether their ideas were actively taken under consideration.

In contrast, at VM Mobile, the CEO set the target for each department and middle managers were fully independent to talk openly within the company and to do whatever needs to be done in order to achieve the target. Therefore, they were more creative and more demanding to achieve their stated objectives as they were following their own ideas to implement them. Even though the senior managers from both companies admitted the fact that the Middle Manager is purely an implementer, the role of middle managers was more active at VM Mobile. This could also be the result of company size, as AM Mobile has more than 450 employees, whereas VM Mobile has more than 250 employees (AMC, 2009; VIP 2010:1).

Table 31: Summary: "Formulation and Implementation Policies at AM and VM Mobile"

Formulation Policies

- The CEO is the person, who introduces the strategy whereas the middle manager is the person, who implements the strategy. There is a need for clear targets and a very close relationship between both parts as none of them can work alone.
- The company needs to follow the group strategy and its local strategy

Implementation Policies

- Organisational structure needs to be simple and flexible with environmental changes by adopting cross-functional teams to implement the strategy.
- Team work is a very important factor which determines the implementation process

Table 32: Conclusion: Research Findings for AM and VM Mobile

External Factors
Competition • There is a very dynamic relationship among three companies • Competition is the factor that influences on implementation process **Market Environment** • Government constantly regulates the market and introduces new laws that have an influence on strategy • There is huge difference between old and young customers. The first group of customers tends to be very loyal with their brand whereas young customers prefers to change and experience different companies. **Macro Economics** • The economic environment seems to have an influence only in exchange rate, but not on sales figures. • The economic environment has made third players closer to low income earners
Internal Factors
Operational Efficiency • Companies need to organise extensive market research to understand customer's needs • Keep the minimum level of cost in each activity, by creating clear cost benefit analysis for each strategic option. • Departmental work needs to be fully coordinated **Technology Utilisation** • Invest in new technology and integrated software to constantly reduce the price • Create new technical team to insure the implementation of the new technology • Constantly innovate and offer new services **Target Price Sensitive Clients** • Target the mass market by offering specific services which satisfy the youth segment and specific services that satisfy the business segment • Establish and gain from the economies of scale concept • Retention Plan seems the only solution to keep customers
Formulation Policies • CEO is the person who introduces the strategy whereas middle manager is the person who implements the strategy. There is a need for clear targets and very close relationship between both parts as none of them can work alone. • The company needs to follow the group strategy and its local strategy **Implementation Policies** • Organisational structure needs to be simple and flexible with environmental changes by adopting cross-functional teams to implement the strategy. • Team work is very important factor which determines the implementation process

Chapter 5.0: Case Comparison and Discussion

5.1 Industry Comparison

5.1.1 Airline Companies

In Albania and Macedonia, the external environment faced drastic changes after the market liberalisation of airline industry. During the market liberalisation process, the Albanian and Macedonian government kept their airports and airlines. However, they both faced managerial inefficiency and high maintenance costs. The only solution for them was the long-term concession rent with the international airport companies.
In such circumstances, both governments gave the airport on a long-term concession rent to the foreign companies to improve their market efficiency. For instance, the Albanian government negotiated the new concession contract with the German company Hochtief, and they gave exclusive distribution rights for international flights without considering the international potentials of Kukesi airport. The situation was different in Macedonia, where the Turkish company TAV invested through concession rent in both domestic airports (Skopje and Ohrid).

There are some differences in how the airline companies choose their airports, but in general when one international company monopolises all airports, it tends to pressure all the airline companies to follow its tariffs. Airline companies therefore do not have any opportunity for a low cost airport like in other markets. To some extent we can say that they are finding hard to implement low cost strategy and they are focusing more on other operational efficiencies. All airline companies are facing with a strong monopolistic position from private international airports that have the exclusive control for the air passenger traffic of Albania and Macedonia. Airline companies could not reduce any operational fees as all of them have accepted high "airport tax" imposed by exclusive international airports. The only room for cost improvement is by focusing on an efficient fleet or by choosing secondary airports with lower taxes (Italy, England or Germany). The industry has been liberalised in the past 20 years in terms of competition but it is still regulated for their services, technical quality, tax laws and time schedules. Companies need to constantly innovate to match new government regulation in order to succeed in the market; otherwise harsh penalties can badly influence them.

In general, the external environment has huge influence on low cost strategy as they have a direct impact on operational costs such as: oil price, parking fee, handling fee, ceresin and administrative fee. Companies who implemented low cost strategy in such monopolistic market tend to have less opportunity to fully implement low cost strategy like Easy Jet or Ryanair. Therefore, they are forced to carefully evaluate the most efficient airplane fleet, introducing centralised purchasing department and keep the minimum level of staff.
In addition, the external factors, such as politics or economics, have a dramatic influence on their business. When Albania signed the visa liberalisation regime with the European Union, air traffic increased by nearly 20% at Tirana International Airport (Hochtief , 2012). This clearly shows how the political environment influences not only the level of sales but also the low cost strategy in the long term.
In general, both companies were targeting low-middle income families, who were travelling during the seasonal periods. Usually these customers are very price sensitive and companies tend to keep minimum profit margin (not more than 9%) to benefit from their seats capacity. This has influenced companies to reconsider their existing strategies and focus more towards the low cost strategy as majority of passengers are immigrants who live abroad and price is the main influential factor for sales. It was logical for companies to follow major cost restructure policies and to enforce them as a low cost strategy rather than just short-term policy.

Another important factor that influenced company strategy is the price of oil. The rise of oil price has put more pressure on the companies that have old airplane models; otherwise the operational costs will dramatically increase. Companies that were reducing costs or implementing a low cost strategy were upgrading their airplanes and navigation models, to keep the minimum level of costs and gain from their extra seat capacity. It was found out that every 6-8 years the companies needed to seriously consider the fact that they need to have new models in order to have long-term success.
Their Internal environment is characterised as very dynamic in their day-to-day operations, with very expensive fixed costs. For these reasons, the reduction of operational costs was the main issue in all companies. Both companies were offering basic service; they were managing their own reservation system and they did not pay high fees for international reservation systems. In terms of technology S Air was keener to replace the old airplane with new models, but still the high flight frequency of other companies showed that such

technologies were better utilized in a larger scale. On the other hand, companies such as Belle Air, started only six years ago with its low cost strategy and, and is now dominating more than 50% of its market share with international companies (Lufthansa, Austria Airline, BA). It shows that small-scale companies can become more successful in a particular market if they implement their low cost strategy and target the mass market correctly.

In contrast, A Airline that was struggling with old airplane and different models finds it very difficult to cut its operational costs. The lack of management control together with the lack of standardization in their operational level created tremendous pressure on their costs. It is very clear that in small companies, the role of the CEO was very important for the implementation of low cost policies, whereas in the big company, such as S Airline, the CEO had more a visionary and formulation (communicator) role. The constant change of CEOs was identified as a major drawback for companies, because employees were finding very difficult in which way the company is going. With a low cost strategy the centralisation and clear objectives creates more efficiency, when it is formulated and implemented in the right way. However, still the role of middle managers was essential for long-term success combined with coordination between departments and teamwork.
As in retail, in airlines too, all managers admitted the fact that once the company decides to introduce low cost policies or implement a low cost strategy, they must create a cost saving culture within the organisation to formulate the strategy.

The majority of senior managers suggested that coordination between departments was essential to make sure that everyone follows the same path. They are aware that in the airline industry everything changes very fast and there is a constant new situation, new problems and new opportunities, it is therefore important that the company updates its operations from time to time by focusing on costs and change the customer mentality.

Table 33: Summary of Airline Case

Cases	External Factor	Internal Factor	Formulation and Implementation Policies
A Airline	- Government Regulation and Legislation is important. - Market Liberalisation has increased the competition.	- Target Price Sensitive Clients for Mass Market. - Constantly Upgrade products to reduce costs and utilize the new technology. - Cut operational costs to increase efficiency.	- Leadership Role – very important. - Middle Manager Role –implementer.
S Airline	Government Regulation and legislation is important. -Competition in distribution channel is moderately important.	- Constantly upgrade products to reduce costs and utilize the new technology. - Cut operational costs to increase efficiency - Question suppliers to get better offers.	- Leadership role is important in small companies and visionary role in big companies. - Middle manager role is key role in implementation process

5.1.2 Retail Companies

Turning to the retail sector, we can say that there are no environmental differences between the Albanian and Macedonian markets in terms of legislation or economic environments. Both markets are extremely fragmented by small family owned shops whereas big international retail has only 30% of market share. Big international retailers are facing stronger competition from family supermarkets compared with other retail chains. The retail companies were gradually expanding in both countries in very similar way through low cost strategy. But still there were companies that followed a group differentiation strategy but gradually shifted toward the low cost strategy. In general, market fragmentation has created tremendous problem for big retail companies in fully implementing a low cost strategy, as they cannot buy in big quantities directly from factories and so are forced to buy from local distributors.

Moreover, the financial crises had a very bad influence on all retail companies that forced them to become more cautious for their expansion strategy. The majority of companies were forced to lower their price as the demand for their products started to fall. In such circumstances they stared to focus more on the low strategy as the only solution for a long-term success.

In addition, the market fragmentation has also created a tremendous challenge for Albanian companies as they cannot expand, mainly because the market informality and low taxes for small size businesses. It seems that the government is supporting the small size family business, because, if they go bankrupt, it may create huge unemployment.

However, the introduction of the new law, which forces all small businesses to have fiscal cash draws, means that they will pay higher taxes and the competition between small and big retailers will become more aggressive.

The market is represented by low and middle-income customers (with an annual income of $6,500) where the economic factor has a huge influence on retail companies as the customers are becoming more price sensitive. During the 2009-2010, all retail companies have lower sales volume. Even though EM retail objective was to rapidly expand to gain from the economies of scale and from bargaining power from its suppliers, but it seems that, they were mostly damaged as they were forced to close down some of their new stores with very bad financial consequences. On the other hand, those companies were very cautious about the economic environment such as RAM Retail that expanded slowly in low-income cities by offering lower prices, through low cost policies, were more successful.

For instance, at RAM Retail, they focused on their operational efficiencies for more than three years and built a good brand name with a high quality service. After three years, they gradually targeted the low-income customers in Tetovo (city) by gradually reducing the prices with different promotional offers. This helped them not get into a “price-war” with low-cost competitors and in the meantime customers valued RAM Retail as a high quality service, where they could benefit from promotional offers.

This helped them gradually increase their financial position, but they opened only 1-2 stores per year, and they ensure that everything is well managed and sales targets are achieved. There is a tremendous opportunity for expansion without competing directly with other big retail companies as the market is fragmented, but the biggest challenges seems to be: the current economic environment, managerial control and market position.

At the beginning, both companies had a major problem with: standardising the working process, coordination between departments and implementation of new IT software. So before any cost cutting policy or low cost strategy takes place, the first thing that was needed was to have a clear standardising work process where everyone focuses on its own area and senior managers are there to coordinate and formulate the strategy.

The implementation of the IT system was evident in all three retailers and it was seen as the only tool, which helped companies implement low cost policies or low cost strategy. Through centralised IT system, the middle managers and senior managers were able to see their sales figures on a day-to-day basis and control their costs and expenses. Without an integrated IT system, it is impossible for a retail company to implement low cost policies or low cost strategy.

The economies of scale concept that was heavily used by EM Retailer to establish low cost strategy, did not work, as they overstretched way beyond their managerial capabilities. Therefore, companies cannot constantly use this concept, but they need to see whether the economies of scale concept apply to their external and internal environment.

In terms of managerial formulation policies, the CEO role was seen as very important in all retail companies, which guides the company direction, whereas middle managers are seen

as implementers (during the implementation process). When the company changes its tactics and decides to introduce cost cutting policies or a low cost strategy they have to impose a cost cutting culture in every aspect of the organisation and focus more on productivity. This is seen as the only way, which can increase the efficiency within the company.
"Of course. We take the decision from him and from there they go through the head of department and we implement them." (A6-Ret.p3).

"His role is very important for drastic changes… I cannot tell you anything. I think he has done a new structure, where everyone knows what he is doing and knows his personal responsibilities." (A8-Ret.p2).

In addition, in a bad economic environment, all senior managers were centralising the decision-making process in their hands and they were gradually passing their authority towards the middle managers once the situation was becoming more stable. This was the case in all retail companies. "In our company the CEO tried to centralise everything in his hands. He centralised all decisions that were related with expenses, paying procedures and so on. It was difficult to manage alone all expenses for all supermarkets. As he could not fully coordinate the work within the department, he had to resolve all problems alone." (A9-Ret.p4).

"The crisis has two sides of a story. I liked it because now we see all the expenses more carefully, saving energy, paperwork, administrative expenses and so on. It has changed our company culture towards cost focusing. That means that everyone within the company thinks that costs and middle management are more efficient in their job." (A6-Ret.p5).

"To implement a strategy you have to ensure the right staff. As company we need to restructure the Human Resource Department to make sure that we have the best middle managers and best people working for us, who are able to implement our strategies." (A7-Ret.p4).

As all retailers were having numerous supermarkets, the integration of the IT system with the Mother Company and report of their managers on a regular basis is extremely important. The majority of senior managers suggested that companies that want to implement low cost strategies, have to first analyse the market and see what the customer needs are during the formulation process. After that, they suggested that all service operations needed to be closer with the client reality. The quality of service has improved only by implementing better communication with their clients. The human resource element is therefore extremely important and it is only by giving gradually independent authority that will enable them to implement low cost policies or low cost strategies. However, it is important that the coordination element between different departments be embodied during the formulation and implementation process.

Table 34: Summary of Retail Case

Cases	**External Factor**	**Internal Factor**	**Formulation and Implementation Policies**
EM - Retail	- Economic Factor huge influence. - Legal Environment – moderate influence. - Competition – slight influence.	- Standardize working process is very important. - Coordination is very important - Eco. Of scale is used in the supply chain. - Target the mass market	- Leadership Role is focused on formulating the strategy, very centralised. - Middle manager implements the policies. - Communication between department and staff is needed. - Cost Culture mentality is needed.
RAM Retail	- Economic Factor medium influence. - Completion is not very aggressive.	- Standardise working process is very important. - Eco. 0f scale is used in the supply chain. - Target high income earners	Leadership formulates the strategy. - Middle manager role is the key one.

5.1.3 Mobile Companies

In general we can say that the market liberalisation had a tremendous effect on the company strategy, especially during the formulation and implementation stage as companies in mobile-telecommunication have to constantly find new ways to reduce costs as the government keeps changing the rules from year to year, just to increase the competition among companies. The market dynamics for the Macedonian telecommunication companies was higher compared with Albania. For instance, in Macedonia number portability was introduced in 2009, whereas in Albania the policy was introduced in 2011.

Also, in Macedonia all mobile companies are forced to tariff their clients with VAT included, and they are not allowed to introduce any marketing campaign without including their VAT on any promotional tool. This has forced companies to compete even more with lower prices and clients always know what they are paying.

The situation seems completely different in Albania, most of the clients know that the tariffs are 20- 25 Lek per minute, whereas in reality they all pay 20% extra VAT. Even when companies were offering a new promotional package to the new potential clients they always offered without VAT. That was the only sector where companies were advertising their tariffs without VAT, and many customers took it for granted that it was the final price, but the situation seemed completely different after they got the bills.

In general, both countries provided very similar environment but there were some differences in the government laws, which influenced on the companies to implement low cost strategy slightly different from Macedonia.

However, the main difference was that the Macedonian Government was more cautious than the Albanian Government to liberate the telecommunication tariffs and to enforce stronger rules on pricing. This was one of the main factors that influenced VIP Mobile to compete using a low cost strategy rather than with the differential strategy. The situation was a bit different in Albania, where telecommunication companies resisted longer in their monopolistic position and gradually reduced the tariffs. For instance, two leading companies (AMC and Vodafone) were focusing on services rather than on cost policies. When two new companies entered the market (Eagle Mobile and Plus) they based their competitive advantage on the low cost strategy – as such two leading companies started to restructure some of their cost policies but mainly they were focused on differentiating their services rather than competing directly. Also, if we analysed the legal environment

between the Albanian government and the foreign investors, we can see that they had less negotiations influence compared with the Macedonian Government.
On the other hand, there are also tremendous similarities in key factors that influence the low cost strategy. As the mobile industry matures in Albania and Macedonia and as the government liberalises the market, the competition is becoming not just strong, but very aggressive and to some points even a price war. The liberalisation of the mobile services, such as the number portability and 3G service has created more pressure towards market leaders and new companies to drastically reduce the price. To make the situation even more complex, both governments have put a maximum tariff threshold that they can charge their clients. In addition to this, the FYR Macedonian government has forced companies to offer their tariffs by including the VAT tax. So companies had to change all their marketing offers and once they do the advertisement, they must put the final prices including VAT. So all companies were under pressure to become more transparent by competing even more towards price and focus on low cost strategy.
However, the economic downturn did not influence any mobile industry as it influenced retail. For instance, at the mobile industry in Albania, the penetration of mobile companies towards population increased from 92.29% in 2008 to 186.8 % in 2011 (AKEP, 2012) and the fourth mobile operator, Plus, entered the market in 2011.

In the retail supermarket industry the situation was completely different, all managers were stating that the economic crises had a huge negative impact on their business.

“In 2009 we expected to open 6-8 stores but we did not open any of them, what we did is that we closed down 2 stores. We did not open any stores; we just closed down 2 stores. The fact shows that we were badly hit.” (A9-Ret.p2)

“The crisis negatively affects us. Majority of our suppliers are local suppliers, 75% of them. Now that we face the crisis, the raw material of the products increased and as result all, the imported goods were becoming more expensive. For example, the price of rice increased dramatically by 40-50% in the global market, which negatively affected our clients and us.” (A7-Ret.p2).
As the retail industry was badly affected, mobile phone customers were enjoying lower prices that companies introduced as a result of market liberalisation. It was clear that the economic crisis did not play any factor in their sales figures. Generally, all clients in the

mobile industry were enjoying the new reduced prices and companies were selling at the same level.
Regarding the internal factors, both mobile companies was using extensive market research, which played a key role in their decision making process. Whatever a company introduced, within a week there was a response from the other competitor. This showed that the market research department was focusing on competition and they were forced to become very flexible in regards to any new introduced marketing strategy.
Still there were some differences, the market leaders tend to see the technology as a key instrument, which will allow them to offer new services, whereas small companies were looking for technology that was more efficient to cut costs, by borrowing the new technology services. As an industry characteristic, the technology is the major cost investment, and companies needed to update their IT systems every 5-7 years to reduce costs and offer better services. This was the main reason why the new SAP technology system was implemented in both companies, as they were able to control the costs, staff and reporting systems to implement their low cost strategy. Therefore, the main idea behind this was that companies were implementing the new technology to increase the efficiency and reduce their costs. However, the coordination and cooperation element was needed as the mobile companies were very dynamic and they were constantly upgrading their services.

They also targeted the mass market (low-middle-high income earners) as they wanted to get as much clients as they could to reduce the unit/costs. The economies-of-scale concept was mainly implemented when the companies were purchasing marketing services or mobile phone or from big companies so that they reduced the buying costs and became more competitive in the market, but it was not used in other parts of the business. Also, as mobile companies were considerably bigger in terms of employees and revenue, the role of middle managers was the key to implement any low cost policy or strategy. This was evident also from key interviews with senior managers at the AM and VIP companies, who fully accepted that middle management are the most important chain within a company who implements their strategy. The role of the CEO was seen more as a visionary and communicative role. This factor was present not only in mobile industry, but also in retail and airline companies.

Table 35: Summary of Mobile-Telecommunication Case

Cases	External Factor	Internal Factor	Formulation and Implementation Policies
AM Mobile	- Competition is very strong and aggressive. - Legal environment and market liberalisation has a huge influence on business. - Economic factor has very low influence.	- Market Research is very important. - Innovation and Technology is very important. - Target the Mass Market. - Coordination and Cooperation	- Leadership formulates the strategy. - Middle managers implement the strategy.
VM Mobile	- Competition is very strong and aggressive. - Legal environment and market liberalisation has a huge influence on business. - Economic factor has very little influence.	- Market Research is very important. - Increase efficiency to reduce costs. - Target the mass market. - Economies of Scale.	- Leadership creates and prioritises the strategy. - Middle managers are Implementers.

In the last few years, especially after the financial crisis of 2008, there has been s an extensive change of consumer behaviour towards low cost goods and services. This has increased the competition for customers, who resulted in extensive price wars for some companies and it has forced them to reconsider their strategies towards costs. Recent academic researchers are focusing more in the direction of the strategy formulation rather than the strategy implementation even though all strategies mainly fail because of the implementation process. Pettigrew and Whip (1991), Grant (2005) also mentioned the importance of external environment towards the implementation process. They continuously highlight the fact that companies need to react better in turbulent environment and what type of policies they need to follow. Therefore, the new implementation framework in low cost strategy will act as a roadmap for future managers to better understand the process and the ways to achieve their objectives. The research results are based on the model, which emphasises the external, internal and implementation policies towards the low cost policies and strategy. In addition, the research outcomes will be discussed and analysed comparing the data not just between industries and companies, but also between different authors.

5.2 Influence of External Factor – on Low Cost Policies and Strategy

The research has been focused on two similar markets such as Macedonia and Albania. Both countries have a population between 2.2-3.2 million, with income per capital of $6,400 – $9,100 (CIA, 2009). Regarding the business context of the corporate strategy, we can say that there are strong similarities in terms of the market structure, economic environment and how the multinational companies formulate and implement their low cost strategy. The most common thing is that after 1990s there was a de-regulation era in Albania and Macedonia and many foreign companies invested in the key strategic sectors like telecommunication, airports and retail.

If we follow the model and research results, external factors such as legal environment tend to be the main factor, which has increased the competition. This has forced companies to consider low cost policies.

According to Kazmi (2008), in our recent business environment, directors face very complex duties and they need to know: what steps to follow, what are the chains of those steps and why they are necessary for their business. In addition, referring to Goll, Johnson and Rasheed (2008) changes that took place from the regulated industry to deregulated industry remain mainly unexplored.

From the research outcomes, we have seen that in six different companies, from all three industries, governmental regulation in mobile, airline and retail tend to have huge influence on competition. As they are the main engines of economy, the government tends to gradually liberalize them by introducing new competition from time to time, whereas the companies are forced to change towards low cost strategy to dominate the market. In dynamic environments, companies tend to formulate and implement their strategies very fast, whereas in a stable environment, they tend to have strategic planning activities that are more formal (Mason, 2007).

In our business context, the legal environment mainly focuses on competition and it has huge influence on the mobile and airline industries and less on the stable retail industry. This external factor triggers companies to better react by focusing more on their internal capabilities, through implementing new standardised technologies, to reduce costs and become more competitive in return. Therefore, all companies search for new technological ways to achieve the new required standards and become more competitive in the market when a new governmental law is introduced.

This was clearly seen in the airline industry, where companies were looking for new airplane models (fuel-efficient) to reduce the CO2 emission tax and increase the efficiency. In the same line, as the government was looking to liberalize the 3G service, mobile operators were upgrading their technologies to become more competitive in the market. In addition, in retail the legal factors have an influence on the external environment, as governments introduced the new laws for small retails to have fiscal cash draws. This has put more pressure on small family business to pay higher taxes, but it has created better opportunities for big retailers to expand in the market.

The government has tolerated in the past years by not “forcing” small retailers to have fiscal cash draws, but taxed them on fixed rates. This was done as they were trying to keep the sole traders in the market to control the unemployment level, but the new legislative laws will increase competition between small and big retailers in the near future.

Regarding the economy, the bad economic condition does not seem to have a negative effect on mobile and airline industry, where all companies tend to be satisfied with the level of the demand. In both these industries, the competition as result of market liberalisations seems to be the main factor rather than economic crisis.

However, this picture is completely different in retail companies. Economic crises tend to have a negative influence on the external environment in retail, where the price of raw materials has dramatically increased and customers tend to buy more basic food products. So, majority of retail companies cancel the whole expansion plan to open new stores and focused more on cutting costs and standardizing the working processes. This was the case of EM retail, where they created a new department that will control the buying costs for their administration and staff. In addition, the exchange rate fluctuation has damaged the profit margins of retailers and they had to constantly search for new ways to cut costs.

Therefore, in general we can say that external factors, especially new laws and the economy, have pressured companies to find new ways to cut costs and implement cost strategy in order to be competitive. All leading companies were targeting the mass market, and to keep up with the changes in external environment a new cost policy needs to be implemented. This strategy goes in same line with Porter (1980) suggestions, which states that for a successful low cost strategy, companies need to target their customers as wide as they can, so the demand could be marked broader. However, to achieve such high esteemed target, considerable resources are needed in order to offer the most affordable products in every point of sale. Therefore, the key question remains: how companies manage their internal factors and their resources? This is why we analysed the influence of internal factors, and saw how these factors have influenced low cost policies and strategy.

5.3 Influence of Internal Factor – on Low Cost Policies and Strategy

As the competition was getting fierce in each industry, all companies were focusing mainly on their internal factor by implemented low cost strategy through new technology. Peteraf and Reed (2008) researched cost saving policies in the US airline sector and suggested that technology is one of the most important factors that reduces costs, increases efficiency and diminishes negative effects of the environmental changes.

Our research results found that the advanced technology was the key solution: for the standardised ordering process in retail industry; for the reservation system in the airline industry; for the new technology systems in the mobile industry. So, in all three sectors, technology seems to be the most important factors that reduce operational costs and enables the companies to implements low cost strategy, but on the other hand, it requires huge initial investment to implement and utilize the benefits of new technology. The high cost of investment prevents new companies to enter the industry and it is a huge barrier of entry (Wright, 1987). It is therefore important for industry companies to re-invest from time to time, to have the most advanced technology with the lowest operational costs to keep the dominant position in the long term.

However, the implementation of new technology requires having standardised working process where all departments have clear lines of responsibilities. Otherwise, the implementation process can cause confusion, high training costs, and lack in operation management. This was the case at EM-RAM retail where many products were missing in shelves because employees were not fully trained with the new system, and many products were not present in the store, but they were in the warehouse.

In addition, due to market dynamics it is very important that companies operate in an open environment, where everyone constantly communicates with each other to resolve different types of problems. Thus, training, coordination and standardisation of working processes are very important factors for the implementation of cost strategy, through innovative technologies, as it may create de-motivation effects towards employees as in the case of EM retail. Furthermore, Mason (2007) supports the view that during the implementation process, companies need to involve their people to stay as close as they can with customers, through using cross-functional teams, so the strategy develops through discovering what works for them.

The economies of scale concept is very useful for all companies, which are targeting the mass market and many companies have to follow it, once they decide to compete based on cost leadership strategy. Nevertheless, when the competition increases external factors start to change and it is very likely that such concept needs to find a new level of equilibrium. Companies, which want to utilise the concept of economies of scale, first have to question whether they can apply it in their industry, and what are the risks of loosing from initial investment costs?

For instance, in a bad economic environment, if the initial investment costs are high and the risk from competitors to engage in price wars is high, than it is very likely that companies will not benefit from the concept of economies of scale. This was the case of retail companies, which were unable to expand in the market through economies of scale concept as the economy was not performing well and there were high costs associated with opening a new store, so they could not benefit from such a concept.

However, all the companies that were targeting the mass market were formulating and implementing low cost strategies in order to be competitive in the market. As Porter (1980, 1996) stated, usually it tends to be the dominant company, which has resource and generic capability to implement such strategy to target the mass market. It was clear that all retail-airline-mobile companies, which were market leaders, were focusing on the mass market by implementing low cost policies.

They were targeting low, medium and high-income earners, youth, middle aged and elderly groups in different regions. The mobile companies were targeting the high-income earners (professionals, businesses) through the BU Package, and low-middle income earners with low price tariffs on pay as you go tariffs. In addition, the airline companies were targeting all potential customers, who were willing to travel, starting with students, government institutions, and businesses. The same picture was also seen in the retail companies, which were targeting the mass market by offering more affordable prices compared to small retail stores.

Pure low cost strategy is very effective when clients are price sensitive and when there is a good chance to maintain a cost advantage position, because of the economies of scale, exclusive technology or unique access to cheap materials or channels of distribution (Miller, 1992). This was the case in the Albanian and Macedonian market, where customers are very price sensitive as they have low-income level.

Therefore, in general we can say that companies need to take some pre-required steps such as standardising the working process, training the staff, introducing open environment and then implement the new technology, which reduces costs and increases the efficiency. The economies of scale concept cannot be implemented for all companies that want to follow low cost strategy, they rather need to better analyse the external environment first, and see what their internal capabilities are. Still companies, which are implementing the low cost strategy, need to target the mass market. This was the case with all the companies we analysed.

5.4 Influence of Formulation and Implementation Policies – on Low Cost Strategy

According to Mintzberg, Quinn and Ghoshal (1999), companies need to elaborate the personal values and the aspiration of senior executives, during the formulation and implementation stage, and determine their key resources towards new policies. However, middle managers are in the best position being in control of resources and knowing the strategic problems (Chussil 2005, Mason, 2007). They are the ones who control the resources, activities and business processes that are very important for the implementation process (Kim and Mauborgne, 2002).

As to the implementation policies at the managerial level, in all six companies that we researched, the middle-management team seems to be the key organisational chain, which implements any strategy in business. In all three industries, middle managers were responsible for the implementation process, whereas the CEO and other executives were responsible to formulate a strategy and keep company objectives at the right level. The CEO role is very important during the change strategy phase and they tend to have more central role, when the company is going through difficult times. In periods of deregulation, executives are more independent to formulate and implement their strategy and therefore influence firm performance by offering different services targeting different customers with variable prices (Goll, Johnson, and Rasheed 2008).

In a broader context, the organisational structure needs to be flexible and simple to overcome different business environment. Business strategy must be implemented differently from market to market due to changes in environment (Cavusgil, Ghauri and Agarwal 2002). Also in all six companies, cross-functional teams are important element to overcome different environmental challenges, whereas middle managers control the strategy outcome. This result came from deep questioning of the interviews from one company to another. The author was not prepared in advance to question the importance of cross-functional teams between departments as it was not seen as an important issue in the model, but it was found latter on.

In general, the new cross-functional teams were created for new product development or cost reduction improvements or service developments. For instance, mobile and retail companies created a cross functional team to introduce new product development or to cut operational expenses by building new distribution channels through service retention scheme. The benefits from such innovative initiatives helped them to improve their profit levels through increasing their sales figures and keeping minimum level of costs. Even thought there are some financial risks, the CEOs should tolerate some mistakes and seek long-term success rather than short-term benefits.

According to Samson (2010), companies' innovative capabilities should be concentrated toward finding new ways or solutions for the customer's problems and they should proactively solve these problems by creating new business opportunities. It is therefore clear that all companies must not focus only on low cost strategy but should also think about long-term sustainability on new innovative capabilities to resolve customer's problems and continuously seek new ways of reducing costs. Companies from the airline, retail or mobile industry should therefore provide new products and services to their clients and raise their competitive standards. In order to create such an environment, the companies should always look for talented marketing managers, IT managers, operation managers or new creative individuals. Companies should signal to the job market that they have a good working environment for new, talented staff that are driven more by their novel initiative rather than moneymaking. To some extent we can say that such environment creates positive effects in the long term as it can keep down the recruiting costs.

However, the intensity of new innovative capabilities can be slightly different among the airline or retail sectors. For instance, once the airline and retail companies establish their new fleet or retail chain they mainly focus on new potential clients and they tend to invest only in new airplanes or new stores to expand their success. The situation is a bit different in the mobile industry where the competition environment is more intense and they tend to upgrade their new capabilities more often.

In general, all companies should allow new, innovative experiments and tolerate short-term mistakes, and they should always think outside the box by carefully evaluating their risks and benefits. For instance, creating new cross-functional teams for stimulating creativity and improving existing products through new training schemes or group work. By sharing their knowledge, companies have more potential to create new capabilities and stimulate them to find new potential opportunities for their products or services.

In general, there are some similarities and differences among the companies in how they gain their innovative capabilities. For instance airline companies tend to borrow an airplane fleet, which has lower maintenance costs and more passenger seats, rather than buying and maintaining on their own. The situation also seems similar with VIP Mobile, which borrows it network from competitors rather than spending tremendous amount of money in building new networks. This has helped them to concentrate and innovate other activities such as customer's service or operational efficiency and not overstretching their capabilities. The situation seems different for the bigger companies such as AM-Mobile or EM-Retail, which have more financial resources and staff members to recruit the most talented people in order to promote new innovative capacities.

However, even for these companies the most challenging task is to involve this talented staff through new personal enticements. For instance, some mobile companies were rewarding and promoting the most innovative initiatives that were successfully implemented. Without personal incentives the companies will find it difficult to maintain their staff in the long term. The situation is different when senior managers associate the personal input with team success and financial incentives as it creates a positive energy toward staff members.

Another factor that was not included in the conceptual model is the culture. In all the companies, the cost saving culture seems to be the key factor, which guides the decisions of all employees. Therefore, constant training was needed for middle managers to shift their culture towards standardised processes, to deeply implement the cost leadership strategy.

What was evident is the fact that in all companies the middle managers were the most important ones for implementing such policies. Authors from the literature review such as Kauer et al. (2007), Amagoh (2009), who highlighted the fact that top leaders are implementers, did not find it in any case. The research results from all the interviews show that in all these companies middle managers were valued as the most important ones when companies implemented low cost strategy. They were in the front line with employees who need to coordinate and create a new culture of cost focusing. This is why companies need to be more attentive regarding the middle management level rather than top

5.5 Discussion: Compare and Contrast with Literature

If we compare the vast literature review with the research results, we can see that there are many similarities and also contrasting results. According to Baack and Boggs (2008, p125), "… implementation of a cost-leadership strategy by MNCs is rarely effective in emerging markets, and that MNCs may benefit from using different strategies in different markets", seems to be irrelevant.

However, we have strong research results that all six MNCs that formulated and implemented low cost strategy (or cost cutting policies) in emerging economies such as FYR Macedonia and Albania tend to be very effective in dominating the market and becoming profitable. VM mobile was a clear example on how a MNC enters the market as a third player and within a year they managed to have more than 12% of the market share by implementing the low cost strategy.

The research results go along the same lines as Mintzberg, Quinn & Ghoshal (1999) who stated that it is important to identify opportunities and risk, determining the company's resources and understanding the personal values and aspiration of senior executives during strategy formulation process, but they fail to provide any information for the middle management role. The research in all six companies strongly valued the middle management role as the key factor for implementation policies. The study outcome therefore is more in line with Amagoh (2009) who concluded that the absence of effective leadership has had a significant impact on the ability to implement and sustain strategic change initiative. It continues by stating that the senior executive play a crucial role in the company's policy, but when it comes to implementation, the middle management are the key persons, who have the authority to make things work. Also, from the research filed, different interviews with senior managers from AM mobile, Vip mobile, EM-Retail, S Airline enforced the fact that middle managers are the most important part of the organisation, when it comes to implement the low cost policies or any implementation strategy.

In the same line Grant (2005) and Markides (2004) identified that strategic implementation should focus on the internal factors such as culture, people, and incentives. But, still they did not provide any information regarding the role of management level during the implementation process.

The research result were similar to Kim and Mauborgne (2002), who supported the view that middle managers are the ones who control the resources, activities and business processes that are crucial in enabling strategic success, and sometimes, they have conflicting interests during strategic implementation, hindering the strategic outcome.

The investigation showed that they are more informed on how to cut operational costs, how to increase the technology utilisation and how to target the mass market. However, as the external environment changes dramatically due to economic, legal or competitive reasons, companies are more in the support of "strategic flexibility" (Miller 2004; Movando & Farrell. 2003; Shimizu & Hitt. 2004, Markides 2004). This was also the case for mobile companies that were constantly reducing their prices as a result of legal requirements by implementing more efficient technology and the case of retail companies, too, which were implementing low cost strategy to better target low-middle income earners as result of economic difficulties.

The conceptual model and research results have some similarities and differences with the holistic approach identified by Johnson et al (2008). The main similarities are as both models focus on external/internal environment by analysing the industry, competition and organisation. However, the main difference is that Johnson's model tends to be very broad for different types of strategy and it does not show how the internal and external factors are linked towards low cost strategy.

While we further elaborate in our research results, we may suggest that all four layers that we presented from the business model, such as:

- External layer (economy, legislation, competition),

- Internal layer (technology, standardisation of working processes, operational efficiency, market research, the right level of economies of scale concept)

- Formulation policies of CEOs through identifying risks and opportunities within an internal and external environment
- Implementation policies by middle management contribute towards successful implementation of low cost strategy.

Are all key important factors for companies that want to implement low cost strategy.

As suggested by Coombe & Greenley (2004), Hunt & Derozier (2004), Cummings and Angwin (2004), Johnson *et al* (2008) and by the dynamics of the market that we have observed in all six companies, the long-term direction of a company is enhanced by strategic flexibility of the organisation. In such a dynamic business environment and with the latest economic development, the best strategies are those achieving business efficiency by fostering new technology, standardising the working process and by organising market research to upgrade the new level of efficiency or by introducing a new model that targets the mass market.
It is important that senior managers promote innovative working culture by demonstrating that they are there to push forward the existing standards and encourage all the staff members to think outside the box, even by tolerating some potential mistakes, as the long-term benefits are higher than the short-term costs. The main focus of a senior manager at VIP Mobile and AM Mobile was to continuously upgrade their marketing and operational products and try to create new demand for their services by meeting customer's demands. In all service industries such as retail, airline and especially mobile sector, customers' expectations tend to change from time to time, and most of the companies tend to focus on these changes and follow them as a main guide to their innovative services.

According to Kim and Mauborgne (1997), companies should not compare or monitor their products or services as a benchmark in the strategy of innovation as they will find it difficult to come up with new innovative solution. It is their main role to go beyond their industry barriers and try to make competitor's product irrelevant through creating new product or services.

However, as the strategy literature suggests, to implement such a strategy requires different internal resources and an acceptable environment to execute such a strategy. So, the companies need to know how to assemble their internal forces, reduce their weaknesses and turn their threats into opportunity (Porter, 1996).

For instance, VIP Mobile was facing very strong competition as the fourth competitor in the Macedonian mobile market. However, their cross-functional teamwork enabled them to benefit from such organisational changes and to come up with new innovative solution for the customer service, new product development and operational efficiencies. Also, senior managers at AM Mobile were successfully launching new service packages by creating open environment to all their staff members to feel free and to contribute with new ideas through group works. This shows that companies should evaluate the innovative ideas of their employees rather than focusing on outsourcing services for marketing or technical staff.

Implementing such policies in an innovative environment, where middle managers have full-delegated authority, is crucial, as they are in a better position to judge the strategy fit between the four layers of the organisational environment, identified by the conceptual model. This is why companies need to take into account the companies' multi-dimensional tasks to low cost strategy to overcome different problems during the formulation and implementation processes.

Porters (1980) generic strategies (Cost – Differentiation – Segmentation Strategy) are more generalised for different paths of a company rather than focusing on implementing a particular strategy in a different industry. Also the: 7S Model (strategy, structure, systems, style, staff, skills, subordinates presented by Waterman *et al* (1980) and YIP (1992, 2004**)** **– (**structure, culture, people, managerial processes**)** mainly focus on implementing any strategy from an internal perspective. However, they do not present a clear picture on how these factors are interlinked with the external environment and how they are implemented from the management level in different companies or markets.

For these reasons, the formulation and implementation of business strategy should not just focus on these four layers, but also adjust them from market to market, due to changes in the environment as it was suggested by Cavusgil, Ghauri and Agarwal (2002). Also the Resource Based scholars such as: Bharadwaj, Varadarajan and Fahy (1993), Barney (2001), Priem and Butler (2001), Cressy (2006), Sheehan and Foss (2007), focused on the role of superior skills of the company's specific factor than the competitors, but they did not specify particularly any factor. From the observation in all six companies, we also found that technology is the key factor, which reduces costs and offers better services, and if it is implemented in a good way, it tends to be the main resource base.

Chapter 6.0: Conclusions

Due to latest changes in the economy, the majority of companies are focussing a great deal of attention on the cost cutting strategy, but they tend to do it rather sporadically only when they are forced to do so rather than considering it as a solution, which will guarantee their long-term success. From the vast literature review, we have seen that there is considerable gap for implementing low cost policy.

This is why the main research question of this dissertation was to investigate and evaluate "H*ow MNCs formulate and implement their low cost strategy in the service sector?"* In order to answer the main research question, the author elaborated three sub-questions to better analyse the role of External, Internal and Implementation policies towards low cost strategy.

- What are the key external factors that influence on the strategy formulation and implementation process?
- What kinds of policies are formulated and implemented for cutting costs in different departments?
- Does the low cost strategy improve the performance of companies in service sector?

In general, the researcher analysed how low cost strategy increased the performance of MNCs in the service sector. This was done by comparing all the above factors to see whether there was any link between them, and to better understand how companies formulate and implement their strategy. The reason that we introduced the comparative element in three service sectors in two similar markets such as Albania and Macedonia was to validate our proposed business model. It was therefore necessary to clearly understand how such a strategy was formulated and implemented in new emerging countries like South East Europe and draw a general conclusion to achieve the research objective.

The main research questions were elaborated by putting together external factors, internal factors and formulation – implementation policies. This helped to better analyse how companies formulate and implement low cost strategy. In general, it was found that companies that want to implement a low cost policy and strategy should consider the:

External Factors:

- By analysing the market environment and seeing how they influence their company. Analyse if government laws have generalised the market and see whether the industry is maturing, or whether there are still opportunities to expand. Competition analysis should be done thoroughly, not just from the research department, but by senior managers and see how their new policies can increase company efficiency and always stay one-step ahead. Analyse whether bad economic environment affects their economy as badly as in other industries.

Internal Factors:

- By standardising the working processes at operations level, training the staff and then implementing the new technology, which focuses on cost efficiency and new services. The coordination element between department and employees is very important. Companies need to target the wide customer group, because the low cost policy enables them to offer more affordable prices for a wider market. This enables them to establish economies of scale concept in their processes, but it should not be the key starting point. The implementation of economies of scale concept can be very damaging if it is not done correctly. In the long term, companies need to constantly upgrade their operational efficiency and train their staff constantly with the new technology to sustain the long-term advantage.

Formulation and Implementation Policies:

- The low cost policy and strategy should come as a conclusion of intensive feedback between middle and senior managers during the strategy formulation process. For the implementation processes of low cost policy, the middle managers are in a better position to value, which part of the company may become efficient and which part of the company may be kept. They know better the productivity of their employees and they understand better the market reality.

  The senior executive's mistake at S Airline, who reduced the same level of staff in New York and Asia to implement a low cost policy, shows how wrongly a policy can be formulated without considering the role of middle managers. (The wage rate of New York staff was $5,000 compared with $500 in Asia, cost cutting policies therefore do not have the same effects). So close communication with middle management is needed not only during the strategy planning, but also by considering their opinion and letting them to implement their proposed strategy which is in the same coherence with the overall group strategy.

Overall, companies that follow low cost strategy preform better than companies that constantly change their strategy. After the financial crises of 2008, customers are becoming more prices sensitive and they tend to buy cheaper products or services. This was the case for the retail and airline companies where senior managers were constantly forced to find new ways to reduce operational costs by implementing low cost strategy.

Also the market liberalizsation of mobile and airline industry forced the companies to constantly search for new ways to cut costs and implement low cost strategy as the competition was becoming very stiff. Companies such as VIP Mobile or Belle-Air, which implemented low cost strategy from the beginning, have very positive financial result and good market share. They not only standardised their working process but also kept the minimum operational costs by borrowing the latest technology at the highest productivity rate.

On the other hand, companies, which were focusing more on differentiation service or expansion strategy during financial crises, such as EM-Retail or AM Mobile, were experiencing a decrease in profit level or market share. This forced EM-Retail to change their expansion strategy and implement low cost strategy in order to survive and reduce their operational costs. The constant changes of the external environment in all service sectors tend to be the increase of the oil price, market liberalisation, new technology and new customer trends toward price. These changes have forced all companies in all three industries to implement low cost strategy as a long-term success.

All research objectives are achieved as the study provides:

1. a complete picture of how multiple variables interact with each other during the strategy formulation and implementation process and how these interactions influence on the low cost strategy and policies process in airline, retail and mobile industry;

2. how companies establish competitive advantage through low cost strategy in the service sector;

3. analysed the role of managers towards cost control policies, and identified the middle managers, as the key people, who formulate and implement low cost strategy;

4. created a new business model for companies, which want to formulate and implement low cost strategy.

In general this thesis provides unique insights as it analyses the implementation process of the low cost strategy in the service sector by combining three main sectors and analysing the implementation process through holistic approach. Most of the previous research, such as Chandler (1962), Johnson (1992), Guffey (1992), Mason (2007), Amagoh (2009), focused on the relationships between strategy and a single variable such as strategy and structure, strategy and culture, strategy and communication. In general they all failed to provide a multidimensional analysis on how these multiple variables interact with each other during the implementation process and how these interactions influence the implementation process of the low cost strategy.

There are different business models that managers can use in order to analyse the environmental context of any industry. However, the majority tend to be more descriptive, as it shortly illustrates the key internal and external factors without considering the influence of the managerial policies and how the key implementation variables interact with each other during the implementation process.

Also, most of the previous research has been focused on the main emerging markets such as China, India or Russia, rather than South East Europe as a region. Two specific cases of Albania and Macedonia provide unique approach, as they are both small size emerging markets with full focus toward European integration. It is very important to have research analysis of how multinational companies implement strategy in small emerging market who aim to join the European Union. Implementation process has different rules and procedures in comparison with other mature markets. This is the case of South East Europe where there is a tremendous need for a new business model in strategy process especially in the service sector, which is the main engine of the economy.

There is very debatable issue among different academics over the importance of the low cost strategy. Some have found that hybrid strategies are more effective (Gopalakrishna and Subramanian 2001), while others support the concentration on one specific strategy (Green, Lisboa, Yasin 1993 and Thornhill and White 2007, Peteraf and Reed, 2008). The main gap in the literature is that the value of a low cost strategy in emerging markets is unclear. Most of the low cost strategies are focused mainly on manufacturing companies leaving plenty of gaps for further analysis in the service sector.

This is one of the main uniqueness of this thesis as it analyses the implementation process of the low cost strategy in three main service sectors (airline, retail, mobile) by considering similar market environments and see whether there are similarities or differences during the formulation or implementation process in two different countries.

6.1 Research Contribution to the Theory

We have analysed the previous strategic frameworks from other authors, but they do not clearly explain how companies implement a strategic that fit between their key variables. They failed to explain how different variables interact and influence each other and how these interactions make the low cost strategy a success story. This is the main reason why the new business model should fit between all variables, which lead towards better understanding of external environment, greater efficiency; more responsibilities towards middle management and constantly update their operational tools to stay in front of competition.

According to Stare and Bucar (2007) there is a serious need for further research in strategy implementation especially in the service sector, which is striving for efficiency and service quality. However, there seem to be further weaknesses in service industry development, reflecting insufficient competition in the service markets, but also weak innovation activity in different service companies. Most of the previous research was organised in developed economies leaving plenty of research gaps in the Eastern European market. As many airline companies are successfully implementing the low cost model (Easy Jet, Ryanair, Wazz Air, Belle Air) many other service companies from mobile-telecommunication are also changing their strategy towards low costs. This is due to changes of the customer's perception toward price, raising the costs, regulatory law from EU and increase in competition.

VIP Mobile is a clear example of how a mobile company can successfully implement the low cost strategy in competitive market. Also, other retail companies such as EM Retail started to focus more on the cost structure rather than the expansion strategy. These three successful examples clearly demonstrate that companies which implement low cost strategy in the beginning can better cope with changes in the market dynamics and gradually increase their market share.

The research result provides a different result from Baack and Boogs (2008), who argue that MNCs face tremendous difficulties in the implementation of the cost leadership strategy in emerging markets. This was not the case at the airline, mobile and retail companies. Companies, which considered low cost strategy or cost reduction policies, were the ones, which survived during the economic crises, and they are the only ones that increased their market shares.

Also, other companies from the mobile and airline industry could implement low cost strategy and they could significantly change the market structure. It is clear now that the consumers have a wider selection and they are constantly encouraged by the companies to save during the consumption stage (Booz Allen Hamilton, 2004). As a result, companies, which follow first the low cost strategy, tend to be the first ones to restructure the “rules” of the industry and create more efficiency.

The research result provides similar outcomes with Klophaus (2005), which concluded that the new market entrants from local countries with similar strategies would not guarantee a continuous competitive advantage. This highlights the fact that if the new company comes from local market, there is still opportunity to successfully compete with established companies through more efficient strategy. It was clearly the case of Bele Air airline in Albania and the case of VIP Mobile in Macedonia.

Gruber and Verboven (2001:1, 2001:2) did some serious empirical research, for the telecommunication market and they concluded that there is a positive correlation between speed and technology. However, the speed of distribution is different in each market due to the economic growth, infrastructure, government policies and technology infrastructure. So, the research obtains different results from Gruber and Verboven (2001:1, 2001:2) as the speed and technological variables are bound by government policies, economic growth and operational efficiency. The research result from mobile, airline and retail industry shows that the speed and technology are not the ultimate variable, which will guarantee success, but the right strategy based on the existing external environment are the fist step for successful implementation. Many political changes have also economic consequences and as a result, many regulatory laws will influence the formulation and implementation strategy of the companies, especially in airline and telecommunication, which are the most regulated sectors of economy.

Hybrid strategies suggested by Levy, Dhruv, Praveen and James (2004) are more acceptable for companies, which offer a variety of products and services, as they introduce different brands or products to target different customer segments. However, companies that offer normal transportation or communication services, the differentiation elements are drastically diminished. In such situations customers tend to focus more on price. This is one of the main reasons why companies should consider low cost strategy as they usually offer similar service and their main difference remains on price.

We draw to the conclusion that without having a comprehensive strategy implementation framework on low cost strategy, the existing framework may not present adequate understanding and insight in this complex area of strategic management. In these circumstances, the formulation and implementation model has good theoretical contribution, as it applies in different business environments and it considers different approaches that have an influence on costs.

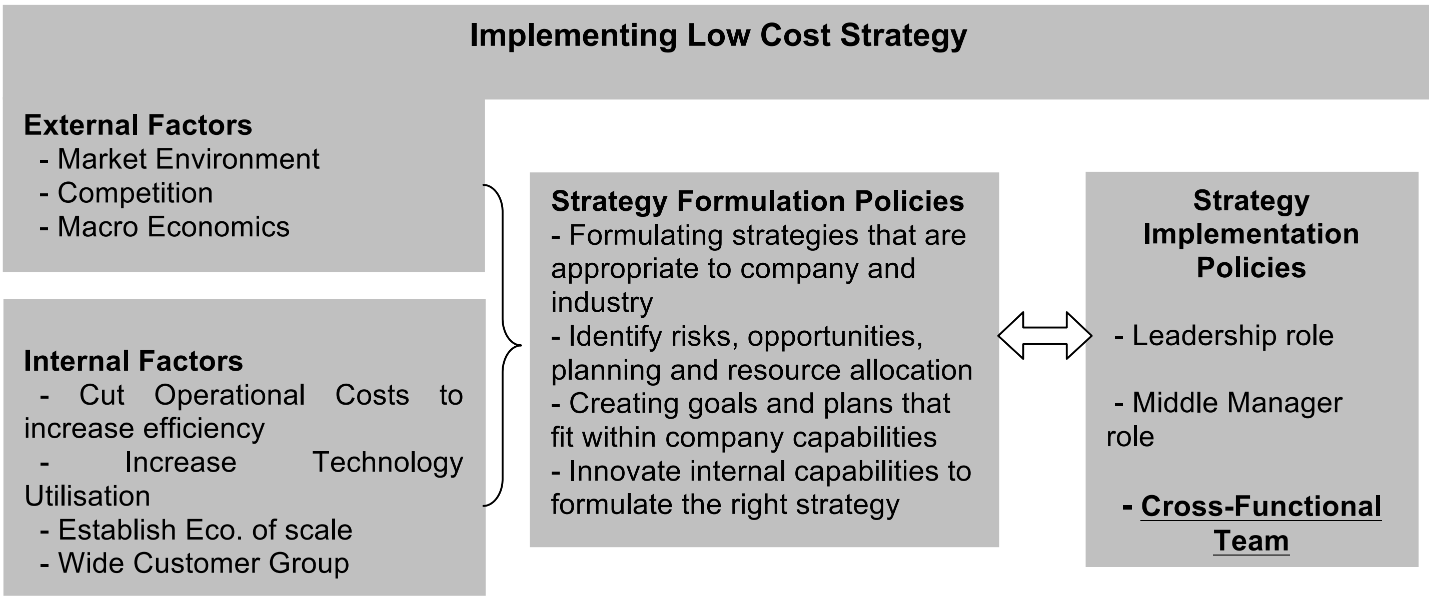
It was very difficult to analyse how low cost strategy literature implies business reality, and it was evident that each implementation factor has a specific proportion on how to contribute to cost reduction. As the main aim of the dissertation was to analyse ”How MNCs formulate and implement low cost strategy in service sector”, the author has contributed theoretically by giving a better understanding on the formulation and implementation processes for low cost strategy.

However, different authors from the strategy implementation literature do not suggest any detailed outcome on how strategy implementation process can be measured and achieved. As indicated by Johnson et al (2008), Markides (2004), this is because there are different variables that can have an influence on strategy formulation and implementation and there is no clear explanation about success factors for such options. Also, some previous researchers such as Kazmi (2008) with the “Structure, Leadership, Behaviour” model and Khalifa (2008) with 4 Es model, “Exerting, Exploiting, Extending, Exploring”, who are mainly from the contingency school, have developed implementation frameworks by including multiple variables.

However, the main disadvantage was that all these frameworks have been developed only in the past twenty years and with not many empirical or data analysis and they tend to be very broad. It is therefore clear that there should be a fit between the External/Internal/Managerial levels so the key formulation and implementation variables are better valued and the low cost implementation strategy is fully achieved. In such dynamic business environment, the best strategies are those achieving strategic fit between the internal and external elements of a company (Hunt and Derozier 2004, Markides, 2004, Porter 1996).

The other important contribution of the research is the fact that the majority of previous research on low cost strategy was done mainly on manufacturing rather than the service sector. It is therefore important to analyse the new growing service economies, not just on the quality that they offer, but also on cost efficiency. The majority of the previous research was mainly done in developed markets rather than new emerging economies. The new model will therefore help future researchers to better understand the market dynamics in the new emerging economies (please see fig.11).

Figure 11: The Model: Implementing Low Cost Strategy"



The cost cutting implementation model is slightly different from the conceptual model as it raises new factors that have an influence during strategy implementation process. For instance, the cross-functional teamwork is a key factor during the implementation policies rather than value for money philosophy (as it was presented in a conceptual model).

Cross-functional teamwork is very important to link interdependent functions together (Pinto and Pinto, 1990). MNCs need to recognise that cross-functional teams will achieve full performance potential through essential involvement and training of CEOs and middle managers to manage these teams effectively (Webber, 2002). Faced with increased pressure to reduce costs and improve revenues, directors are looking for opportunities to co-create value with customers and suppliers (Coca and Salle, 2008). According to Enz and Lambert (2012), managers should consider using cross-functional, cross-firm teams to increase the profitability of relationships with strategic customers and suppliers.

However, according to Ancona and Caldwell (1990) who analysed the role of the cross-functional teams in 45 high-tech teams, concluded that there is modest empirical evidence whether team diversity improves new product development. Actually, they believe that by combining different departments together without any common environment tends to reduce the company's performance. Other authors, such as Dougherty (1987), go even further by highlighting the fact that the team diversity is more likely to increase conflict, diminish group cohesion and complicate the coordination element.

This may have an effect on the implementation process decisions, as some people do not want to share their authority with lower positioned staff. For example, at EM retail, there were group work discussions, but only the senior managers met together. It was clearly evident that close collaboration between senior managers and employees was important for a successful implementation.

However, other mobile and retail companies, which operate in more dynamic environment, have a different view on the importance of cross-functional team. They highlighted the fact that sharing of knowledge amongst the departments through cross-functional teams is always needed to respond different market needs. Nevertheless, there were some differences since the marketing department was more focusing on the short-term sales, whereas IT engineers were searching for long-term solutions. So, to some extent we can say that there are some differences in terms of project perception, but once they are well managed, different opinions only add value to the project success.

In general, some biased opinion may rise up during team discussions, as the employees tend to recall past successes when they analyse a new strategy (Hutt, Walker and Frankwick, 1995). Also, Cohen and Bailey (1997) state that there are mixed results regarding the benefits of the cross-functional team whether it facilitates effective performance.

However, as the market dynamics tend to increase in all service industries, integrating and implementing joint solution with a greater speed and good environment is one of the key competitive advantages in today's business (Institute of Management Accounting, 1994). It is therefore the team leader's task to understand different viewpoints and promote a good working environment by creating a positive culture. This means greater cooperation and collaboration with all departments, employees, customers and senior managers. Managing such complex team should become number one priority when companies want to implement successfully a low cost strategy in a dynamic environment.

In all three main industries that we researched, senior managers mentioned that companies should build cross-functional teams during change strategy to better coordinate the implementation process. This raises and identifies a critical strategic issue that needs the management's attention to make cross-functional team effective.

Nevertheless, the model that is presented in this research balances the external and internal factors that influence on formulating and implementing low cost strategy and it draws the attention of the companies on how to fully implement such strategy. The variables in this framework are not measured separately, because the variables in one group can influence the other variable group and therefore it has influence on the outcome of the whole process. Therefore, such an approach is suggested to be very effective as all factors are concentrated only on the impact that it has on implementing low cost strategy.
It is also important that the nature and interactions of all implementation variables affect the process variables and consequently the outcome result. A number of implementation factors such as market situation, customers, and operations of company and management role are mentioned at the proposed model and many authors referred to these as key formulation and implementation factors.

The research finding and analysis illustrates how these variables are linked together and how they have an impact on the cost strategy and how these interactions influence the implementation process. In other words, the implementation model on low cost strategy goes beyond just listing the most important factors that companies need for cutting costs.

It was very important to analyse how the new model appeals to companies in the service sector by observing how companies implement low cost strategy in different markets and validate the concept through observing different sized companies in main service industries such as airline, retail and mobile industries. By evaluating: similar market structures, similar companies size in main service industries, the researcher was in good position to see whether the proposed variables are key success factor for implementing low cost strategy or there are other factors that need to be considered.

6.2 Research Contribution to the Managers

This research will help future managers and MNCs to better understand how MNCs formulate and implement their low cost strategy in the service sector, especially in emerging markets such as South East Europe. By looking at the uniqueness of each variable factor from external/internal/managerial perspective, managers can give us further insight into the implementation process of low cost strategy. This will create the basics to recognise the most applicable and practical method that they can use when they implement strategic decisions in MNCs.

The research finding revealed that by investigating the formulation and implementation policies on low cost strategy, academicians from strategic management and practitioners are likely to better understand how to make their organisation more efficient. Exploring the internal and external factors from different service industries and seeing how different factors are interlinked together puts the management level in a better position to analyse any low cost policies that are introduced in their company. The pattern of the research outcome implies that external-internal-management factors play an important role, but they need to be tuned, in order to successfully execute any low cost strategy.

Regarding implementation policies, in all companies that we researched, the middle management team seems to be the key factor for strategy success. Senior managers should therefore work even closer with middle managers, as they are responsible for the implementation process. On the other hand, CEOs and other executives should formulate the strategy by keeping all company objectives at the right standards. In general, the CEO-s role is very important during the strategic change, especially when the company is facing difficult times. But, once the company is recovered they must delegate their authority to middle managers. They are the key people who implement the low cost strategy as they are in a direct contact with client's, suppliers and day-to-day tasks.

When the company decides to follow a low cost strategy, managers have to impose a cost cutting culture in every aspect of the organisation and focus more on productivity. In all companies the middle managers were the most important ones for implementing such policies. Constant training is therefore needed for all middle managers to shift their culture toward standardised processes, to deeply implement the low cost strategy. This is seen as one of the best ways to increase the efficiency within the company structure.

As customer needs tend to vary, not only in the mobile industry but also in the airline and retail industry, managers should focus more on cross-functional teams to innovative their capabilities to match up with new industry changes or new clients' needs. Managers should always create new rewards schemes for innovative initiatives or successful implementation targets. This will signal all staff members that the core of any business is not only to reduce the costs in the short term but also to continuously think how to become more productive and efficient. The new innovative culture will create a new mind-set and positive environment for all employees to challenge the existing boundaries and to seek for new improvements.
In addition, managers should also develop new training courses to innovative their capability within their company structure. Creating such environment needs an active strategy and manager input to prioritize the new capabilities that are needed for each department. Managers should allocate all their human resources towards innovative or creative initiatives and turn them into operational efficiency or service quality. It is important that the coordination element amongst different departments to be embodied during the formulation and implementation process. Managers should therefore valuate the importance of cross-functional teams in order to overcome different environmental challenges, whereas middle managers should control the strategy outcome.

In the long term, companies must find new ways of gain knowledge and new ways to apply such knowledge in order to create new innovative capabilities to continuously implement the low cost strategy. Linking the company knowledge with the company development capabilities is a very challenging task for any senior manager. However, there are different stimulants than can be used by them in order to bridge them in order to reduce the company costs. For instance, senior managers should always support new technology initiatives, which reduce the company expenses or improve their service productivity. They should constantly promote cross-departmental network to create new synergy in terms of knowledge and problem solutions.

Companies should always consider long-term bonuses schemes for their best talented employees to motivate them. They will continuously think differently in order to further improve the company capabilities. This will boost the motivational level of the employees and will create new company culture to continuously think toward innovative capabilities to reduce the overall costs. All airline, retail and mobile companies should develop a methodical innovative capability within their company structure in order to add value toward their business and become more efficient and productive in their service.

Generating such an environment it needs an active strategy and leadership input to prioritise the innovation capacities that are needed for each departmental unit. As mobile industry is more dynamic than airline and retail sector, managers should allocate all their human resources toward innovation or creative initiatives that reduce their costs and turn them into operational efficiency or service quality. The CEOs should always focus on creating long-term reward schemes for innovative initiatives and successful implementation targets. This will signal all employees that the core of any business is not only to reduce the costs in the short term but also to continuously think how to become more productive and efficient in long-term. The new innovative culture will create a new mind-set and positive environment for all employees to challenge the existing boundaries and to seek for new improvements.

Overall, companies that implement such initiatives will attract more talented individuals from the other companies. As a customer needs tend to vary not only in the mobile industry but also in the airline and retail industry, managers should therefore focus on new innovative capabilities to match up with their client requirements. They should also spend a considerable budget for new innovative products or services by recruiting the best talented individuals from their industry. Companies in service sector should work even more with their suppliers, clients and employees to create a wider involvement base towards new low cost projects.

6.3 Future Research

Firstly, the research is mainly based on qualitative method because the main research question starts with “How” – Multinational Companies Implement Low Cost Strategy”. Interviews were a good method to collect data, but they still provide some drawbacks as they can have biased opinion and sometime it can become very challenging, when comparing the results. In such circumstances, it would be good if future researchers would also consider quantitative method as an additional method, which could add value to the results. So a detailed survey with very similar questions from interviews could be distributed to participants, who were interviewed in order to better validate the results. By doing this, we would be in a better position to judge whether interviews correspond with their questionnaire results.

Secondly, the research is based only on two different emerging countries so the results are somehow limited. It would be enhanced if the scope of the research were also organised in 3 more emerging economies with similar business environment such as: Montenegro, Croatia or Serbia. There are many Multinational companies operating in all five South East European countries, and the results from the same company group level could become even more appealing.

Thirdly, all three, external, internal, managerial factors that were presented in the low cost model should be further elaborated in developed markets to better understand whether the size of the market or economic cycle plays an important role in low cost strategy. For instance, the competition (as an external factor in retail industry) should be further elaborated as it gives us controversial results compared with mobile industry. In addition, the economies of scale concept should be further analysed whether it is important for low cost strategy, as in airline industry the most successful company, which competed with established players was the smallest company with no economies of scale perception.

The majority of world-class MNCs operate very actively in developed markets and it is therefore important to analyse how such companies fully implement low cost strategy. The recent economic environment can become a good source of investigation. It will enable any future researcher to better understand whether the external environment (government laws, economic condition, competition) forces the companies to change their strategy and implement only low cost strategy, as the only alternative of surviving or whether companies implement low cost policies only in difficult times, and they change their strategy once the environment improves.

Fourthly, from the internal factors, we analysed, we have seen that technology plays an important role for every company that wants to reduce the costs. However, we do not know the exact costs that are associated with it, what the return of capital investment is, can technology hugely influence operational costs in other service sectors, such as transport or hotel industry.

Fifthly, as the researcher identified the key importance of cross-functional teams during the implementation process, it is better to analyse this factor right from the beginning and where many questions on this issue can be further elaborated. This will help practitioners to see whether cross-functional teamwork between departments are needed during implementation of low cost strategy or whether it can be used in different types of strategy. Also in terms of managerial practices, it is good to analyse the difference between organisational culture and cost culture of the company. There seems to be a huge difference between these two concepts, but they were not analysed in the research. During the interviews, we have seen that cost culture of the company towards low cost strategy is extremely important, but we cannot understand whether this is something that is done during difficult times or when companies implement such strategy once they decide to compete on costs.

6.4 Research Limitations

The low cost strategy implementation framework comes from different research viewpoints and it appears to be very positive and relevant in evaluating the recent debate on the strategy implementation process. However, the formulation and implementation factors that were observed during the research work were based mostly on empirical analysis rather than quantitative analysis. One of the main research limitations is that the validity or reliability element can be criticized due to limited research sample of only 23 interviews. The research is restricted somehow in its scope based only on these empirical evidences. The main research question demanded a qualitative study, but in order to generalise the results, there is needed for a quantitative study with a larger sample to test the findings of this study.

Also, the market context and environment cannot be fully replicated or generalized in an exact manner. As the research was organized in two different countries, we could say that cultural differences and some differences in business environment could become a limitation of this study. So, rigorous methodological approach was difficult to be maintained and analysed. Also, the data gathered in two different markets, which is unavoidable in the qualitative research, can be seen as a limitation, as the research analysis was based on a self-report analysis. Therefore the personal observation of the researcher combined together with the respondents' reliability diminishes the accuracy of the findings. The bias opinion of people who were interviewed can be interpreted as limitations.

Also, the limited time required for data collection was problematic for the data analysis part, as the researcher had limited period in Albania and Macedonia to arrange interviews with senior managers. He was involved in conferences with different economists, officials and regulatory bodies to better understand the present situation, and meeting them formally needed advance arrangements and some planned interviews were not organized. This made it difficult to undertake no more than 10-13 interviews in each country, only with senior managers, middle managers, employees and business consultancy offices.
Although there are quasi-government agencies acting as a one-stop-shop for international companies offering different services, there is not a single government body responsible for providing accurate data costs for Airline or Mobile-Telecommunication. This made it even more difficult to collect and analyse the data for this research.

If the researcher had more resources to conduct a detailed primary research with a wider researcher group in the three industries, the study would certainly have more weight, credibility and benefits. Also, combining the quantitative and qualitative approaches could possibly prove to be very useful to the future researchers.

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Appendix 1: "Summary of Industry Comparison":

Cases	External Factor	Internal Factor	Implementation Policies
A Airline	- Government regulation and legislation is important. - Market liberalisation has increased the competition	- Target Price Sensitive Clients for Mass Market. - Constantly up-grade products to reduce costs and utilise the new technology - Cut operational costs to increase efficiency	- Leadership role very important - Middle manager role – implementer
S Airline	- Government regulation and legislation is important. - Competition in distribution channel is moderately important.	- Constantly upgrade products to reduce costs and utilise the new technology. - Cut operational costs to increase efficiency - Question suppliers to get better offers.	- Leadership role is important in small companies and visionary role in big companies. - Middle manager role is key in implementation process
EM - Retail	- Economic Factor huge influence. - Legal Environment – moderate influence. - Competition – slight influence.	- Standardise working process is very important. - Coordination is very important - Eco. of scale is used in the supply chain. - Target the mass market	- Leadership Role is very centralised. - Middle manager implements the policies. - Communication between department and staff needed. - Cost culture mentality is needed.
RAM Retail	- Economic factor medium influence. - Completion is not very aggressive.	- Standardise working process is very important. - Eco. of scale is used in the supply chain. - Target high income earners	- Middle manager Role is key
	- Competition is very strong and aggressive. - Legal environment and	- Market research is very important. - Innovation and	- Leadership creates the strategy - Middle managers

AM Mobile	market liberalisation has a huge influence on business. - Economic factor has very low influence.	Technology is very important. - Target the Mass Market. -Coordination and Cooperation	implement the strategy.
VM Mobile	- Competition is very strong and aggressive. - Legal environment and market liberalisation has a huge influence on business. -Economic factor has very low influence.	- Market Research is very important. - Increase efficiency to reduce costs. - Target the mass market. - Economies of Scale.	- Leadership creates and prioritises the strategy. - Middle managers are implementers.

Appendix 2: Formal Email for Gatekeepers

Pleurat Rexhepi - PhD student
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Academic Research for Business Strategy

To: **Human Resource Department**

Subject: **Academic Research: How Companies Implement Cost Strategies in Service Sector.**

Dear Sir or Madam,

I am a researcher from King's College London, working on a research project on how Companies implement their Cost Strategy in Service Sector. The objectives of my research are to:

- Evaluate how companies establish competitive advantage through cost leadership strategy in service sector
- Analyse the role of managers towards cost control policies
- Create a new business model for cost strategies

For my fieldwork, I am looking for Multi National Companies that are market leaders in their industries and analyse different business strategies, which they implement. In the past few months, I have researched many companies in Greece, Bulgaria, Albania, and I have discussed to different government institutions about implementation issues on business strategy. In addition, I am full time lecturer at University of Tirana in Albania and my main academic interest is on strategy field.
In the past few weeks, I have visited several companies in Greece and I have talked to key managers about how companies implement their strategy. For the next step, I would like to visit your company to spend some time with your management team in order to share their opinion and experience at your company. Please is it possible to arrange an interview with you at your proposed date and time or as an alternative option organise an interview through videoconference such as Skype?

May I remind you, that this is an independent academic research and my intention is NOT to examine whether your company strategy has been profitably implemented or not. It is rather to understand and evaluate the difficulties, complexities and challenges of implementing cost strategy from a Multi National Company perspective. I would also like to emphasize that all the information collected will be treated strictly confidential. However

The findings of this study will be presented in an anonymous way and it will not be possible to identify any respondents in the final report. Please also note that I will share my research findings with all participants through a written report and may arrange some group discussion. If you require any further details about the project please do not hesitate to contact me at the given address.

Thank you in advance for your time and I look forward for your reply.

Yours sincerely,
Pleurat Rexhepi (P.S: Please find attached the Information Sheet and Consent Form)

Appendix 3: Transcript Analysis

Transcript Interview with Mr. XXXX from Euromax:
A9 (Employee):

- Introducing research project: background information, aims and objectives
- Information Sheet for participant
- Introducing the Consent Form for participating in research studies
- Open Question:

Could you please tell me about your professional background, for how long have you been working for this company, and what is your role in company?

I am working at Euromax for more then 1.5 years at Finance Department. I deal with costs analysis, negotiating contracts with suppliers, profit and loss account, bonus calculating and different reports within department. We have the Head of Department where anyone communicates directly with him. We do not have team leaders. The structure was not very well organised. For any problem that was created, we did not have any person to ask, but we have to go directly and talk to the Head of Department as no one takes the responsibility to answer the question. Everyone reports directly to the Head of Department. We are 12 people who work in this department. Usually 4-5 peoples are always in direct contact with her. We have persons who are in charge of: buying, one person who is in charge of selling, one person who is in charge of accounting, contracts, and another person who deals with payments. This sometimes created confusion within our work as sometime all of us went there at the same time and she did not have time to deal with all of us. It would be better if we have a supervisor who deals with our different request and only if we have problems we could go and meet her.

<u>Stage 2: Development (40 min)</u>

<u>External Factors:</u>

- **In your opinion, can you explain please how is your company competing with other firms in the industry?**

  Our main advantage of our strategy is that we have many selling points in different parts of Tirana and Albania and we are dominating the retail supermarket sector. If a client wants to go for lets say to Conad, he needs to get the car and go for shopping in a highway.
  Another good strategy that Euromax implemented is offering good Prices, and matching very well with the market reality of Albania as the main population is based with low-medium income earners. Euromax targets and serves their needs very well. We know that we do not offer the best quality like Conad but we have very affordable prices for them. Therefore, Eurmoax has utilised very well this strategy by offering low prices and expanding in different parts of Albania, not like Conad who is expanding only in strategic selling points. This has created a good advantage for our company, as we do not have a direct competitor.

Can you give me some examples of strategies that you have implemented over the past ten years, which have worked well or not worked so well?

Well our advantage could also be considered as a disadvantage, as we expanded a lot more that we could support. Our senior managers wanted to expand as much as we can in order to have more bargaining powers and respond to our new competitors. We opened more express shops than markets needed. This was wrong. The market in Tirana is limited in terms of population as we are only 1.5 million inhabitants. Therefore, if we have 5 stores and we added 3 more stores, this created extra costs for us. The clients are limited. So we had more or less the same selling figures but we just added extra fixed costs for our extra stores. So what we did is that we immediately closed down the stores which were running with loss to cut costs. For example at the Komuna Parisit area, we opened 3 stores, whereas we could easily have one big store or maximum 2 stores to create the same selling figures. What we did is that we also opened another Euromax store at Bllok area, which was just hundred meters far away. So, we concentrated too much in one area, and extra stores were not needed.

- **How do the market environment factors influence your company to implement your strategy?**

The financial crisis of 2009 badly hit our sales figures. As result of crisis, many Albanian immigrants had less money to spend at their homeland. As their income was going low, that means less money in Albania economy. So, indirectly the buying power of our clients was going down. For example, in 2009 we expected to open 6-8 stores but we did not open any of them, what we did is that we closed down 2 stores. We did not open any stores; we just closed down 2 stores. The facts show that we were badly hit.

Can you tell me story from your own experience of how external forces affected your company to implement your business strategy?

I do not deal directly with the strategy. However, what I can say is that we do not have a direct competitor. Even 2-3 supermarket chains that are operating do not compete directly with us, as each chain targets different type of clients.

Internal Factors:

- **What type of strategies do you use as competitive tool and what kind of policies do you follow to implement them?**

What type of clients do you target and how wide do you focus?

We target the low-medium earners. While Conad targets high-income earners with good quality products from Italy. In the meantime, Mercator chain was planning to compete directly with us. But, they are very far of doing so. This is because they have more or less the same products as us, 80% of products are same as us, but they are offering the same products with higher prices. We know that the mass-market focus on price, so they are not as close as our company is with clients. They are selling the same products as us at high-income earners. In addition, they have only one Hypermarket Store, out of Tirana, and the clients need to drive at least 30 minutes to go and buy there. Meanwhile Euromax has a store in every area of Tirana. So, in these terms we do not have a direct competitor.

Can you tell me from your experience how do you target your clients for a particular service and what is the clients response towards price?

Except our normal clients, we also have VIP clients who buy in bulk, like NGO-s, School, company catering and so on. In the last year, as result of economic crisis and bad exchange rate fluctuation, the LEK was devaluated, and suppliers were forced to increase the price, as result we also had to increase the prices for some products. Clients were therefore directly affected by higher prices.

Our company tried the maximum to keep the lowest price. Our profit margins were hit as senior manager decided not to change the prices.

What kind of operational efficiencies are needed to implement your strategy?

There is lack of coordination within the administration. This is the first start. Therefore, if we do not have the right coordination within the department it is difficult to implement any strategy. For example, I dealt with Supplier Contract. When I asked anyone in our department for a Draft Contract, no one was able to give me. Some people did not want to give me and so on.

As far as I know the Head of Departments like Marketing, Buying and Finance were not fully coordinated and they did not fully coordinate their actions during the expansion period. They mainly focused on seasonal sales. During the summer period, they mainly focused on summer products, like beach products, drinks and so on. Every Head of Department was working alone for a particular problem and had to get the signature from the CEO. This created disorganisation in operational levels to implant the strategy.

When was the last time that you had a success or something that did not work with your operational efficiencies and how did you implement them?

One thing that did not work well is one of our marketing campaigns. Last summer DJ Tiesto came to Albania, and Euromax decided to target the youth clients in this event. The marketing department decided to participate in this event and sell Sandwiches as part of marketing tool. For a company like Euromax that goes to such an event and sells Sandwiches, it was a bad marketing. We spend lots of money, time and effort and it was a bad marketing strategy, and I am not sure that this helped us. If all Departments were coordinated, I do not think that we would have such a bad loss. If the Finance Department together with Purchasing department had contributed, the financial costs would have been kept lower. Therefore, it was not a good idea to leave this entire event to the Marketing Department without fully analysing the costs. Even thought we have a pre-contract with the event organisers we still have not fully paid for their service, as we were not satisfied with the organisation. The contract was not fully paid and we still have an open problem with them. This is what happens when everything is left to one department and when we do not fully analyse the issues.

How do you use economies of scale concept in your business? Can you tell me an example if you have used the economies of scale concept towards suppliers / clients?

We used this concept with our VIP clients by offering them 5% price discount to keep them closer. The bad thing is that we do not offer discount prices for products that are close to the expiry date. We start to reduce the price only in the last week, but we do not have the time to sell all products. If we do not sell the products and the products expire, we return them to our suppliers. This means extra cots for them and damaging relations with our suppliers. None of Supermarket-Chains uses this policy. We do not use "buy one get one free" promotional tool. We have to apply them in our future.

<u>Managerial Implementation Policies:</u>

- **Can you explain please, what is the CEO-s role in implementing business strategy**

In our company, the CEO tried to concentrate everything in his hands. He centralised all decisions that were linked with expenses, paying procedures and so on. It was difficult to manage alone all expenses for all supermarkets. As he could not fully coordinate the work within the department, he had to resolve all problems alone. This was a part of his mistakes to implement his strategy.

He should have not monopolised all the decision making process. What is the idea of having administration employees who cannot take any decisions? He tried to do his best but I think that he failed. He is starting now to delegate few things, as he could not handle all of them. I think he cannot manage some bad situation that we are facing. His way of managing could be good for one big hypermarket or small company but not for a retail chain like Euromax.

What did your CEO do differently?

I cannot think of….Well he did not manage well the liquidity. Instead of motivating employees and making them work hard, he made them redundant and he reduced the wage rate in order to cut costs. This had very bad effect in our motivation. Hence, even the rest of the employees that were working were not motivated. Not everyone was secure in his or her job and did not work so hard. This was a bad policy. As we reduced the staff level in our company that means more work for our existing staff members, and less income for their extra work that we are doing (as result of wage reduction). This was completely wrong. Euromax does not need to cut employees. We have experienced people.

For example, in one of our departments the CEO made redundant 2 staff members in a department which consists of 8 people. The other two persons were unsecured in their job and they left the company before. So, we were forced to get two more people, which mean extra training costs, more years to train them, miss coordination in the beginning as so on. They think that by reducing costs, they will have more liquidity but they miscalculate the long-term costs, which mean more extra cost to train and more time to train them within the department. Euromax has reduced the expensed but they have to think more that these saving costs are not real, as they have to calculate the hidden costs as well.

- **Can you explain, please, what is the role of middle manager in implementing business strategy?**

I cannot tell you much as during this period the CEO was playing the key role. The only thing that middle managers did is price reduction in particular season. They had to analyse the warehouse, the prices and put these offers in catalogues. They did not take any initiative. I think I told you about them for the Marketing of DJ Tiesto. As far as I know they did not do something extra, they followed only of what they have been told to do. The Brand Name Euromax helped the company to continue working in this difficult period and not fail.

Did the middle manager follow the CEO strategy?
They have usually followed the CEO strategy. Even if they argued for the good of the company, they still followed what the CEO decided. Everyone followed what he said. Everyone was a bit fragile in open discussion when expressing his/her opinions, as they were afraid of penalisation.

From your own experience who is more important for strategy implementation, the CEO or middle managers? Can you tell me an example?

As middle managers are in a more direct contact with the clients, staff, suppliers and all other stakeholders they are normally more important. More responsibilities should be given to them for the decision-making process. I understand that the CEO has a very important role, but middle managers should have more responsibilities to fully implement the strategy. So, middle managers' ideas should be considered more once the decisions are made. They are a bit fragile when they express their opinions, as they are not very sure if the CEO will like them. I think a paramount role should be given to middle managers.

- **How do you create the "Value for Money" philosophy towards your workers and clients?**

Yes, we have the Value for Money philosophy towards our clients, but not for all our products, lets say 30% if our products do not follow this concept.

<u>**Stage 3: Closing (10 min)**</u>

- **Can you tell me please what your company needs to do, in order to successfully implement your business strategy?**

They can do many things. From what I have seen in my company, I can say that, every company should have full coordination within the department and with other departments. For, let us say that in my department there should be more coordination between colleagues. I had many problems with my colleagues in my Finance department. If we do not coordinate our work within department that means that, we have to do the same job with more time. It is therefore difficult to implement the strategy. If we cannot coordinate our staff within one department that means less motivated members and you can imagine what could happen with other departments. Therefore, everything needs to be coordinated within the department and then we have to coordinate our work with other departments.

- **What would you do differently?**

I think the company should have coordinated the employees a bit more with each other. We have to coordinate a lot more with our retail stores. It is very important to coordinate the Store Managers with the admin office. We have many problems with this issue. The administration should be in more contact with Store Managers. We used to have the Internal Audit Department, but for some reasons this department vanished and we do not have one.

- **Would you like to add something?**

We have still the opportunity to remain leaders in our market, as we still do not have a direct competitor. We are struggling as result of bad decision making from our senior managers, this starts from the organisational structures, the contracts that we are doing with our suppliers, the managing of funds. For example, within a very short period of time the administration of funds was composed of 4 - 5 different people. At one time, it was one person that managed the funds then after few weeks later, it was another person. This thing was not good. Every fund manager prioritised the payment for particular suppliers. Therefore, for the payment methods, personal decisions were followed and not the company's policies. Sometime, we did do not pay on time the right suppliers.

How is the situation at the moment, what is your average revenue?

Averagely we have the daily revenue of 60'000 - 70'000 Euro (80'000 $) from all our selling points. We do not have any profit margins with our sales at the moment. Now we know that we are in difficult times and we hope that things will improve in the future. We are adding some extra liquidity and cutting costs to manage these difficult times.

Thank you for your interview, it was extremely helpful to me.

No problem

Appendix 4: Albania vs FYR Macedonia

- Albania is very small market with only 3.6 million people with $6,400 GDP per capita - low-income level, (CIA, 2009, please see table 7).
- Macedonia has 2.1 million people with $9,100 GDP per capita – low income level (CIA, 2010)

Table 7, "Market comparison: Albania vrs FYR Macedonia"

Indicators	Albania	FYR Macedonia
Population	3.6 million	2.1 million
GDP per capita	$6,400	$9,100
GDP growth	7.8 % in 2008, 4.2% (2009 est.)	4.8% in 2008, -1.8% (2009 est.)
GDP (purchasing power parity)	$23.12 billion (2009 est.)	$18.71 billion (2009 est.)
GDP (official exchange rate)	$12.19 billion (2009 est.)	$9.238 billion (2009 est.)
Budget	revenues: $3.368 billion expenditures: $4.227 billion	revenues: $2.914 billion expenditures: $3.161 billion
Inflation	2.2% (2009 est.)	-0.8% (2009 est.)
Population below poverty line	25% (2004 est.)	28.7% (2008)
Member of EU	2018-2020	2018-2020

Source: CIA (2009) " *Albania*"
https://www.cia.gov/library/publications/the-world-factbook/geos/al.html, Date Accessed on 14th of November.2009

Source: CIA (2010) "*Macedonia*"
https://www.cia.gov/library/publications/the-world-factbook/geos/mk.html, Date Accessed on 14th of November.2010

Summary of the Interview A9 (Employee): Retail Supermarket Industry

Evidence and Facts from Interview	Researcher Comments
Company Info: daily revenue is $80’000. **Competing with**: many selling points, which allowed us to be close with customers. Good Prices. No direct competition. However, the mistake was that we expanded more then our market needs and our abilities.	The biggest advantage of the company is that they have many selling points in Tirana and through the country. Whereas other supermarket chains are concentrated only in strategic points and they have gradually expanded. The biggest strategic mistake was that the company planed to expand in bad economic environment. They planned to open 8 stores in 2009. They did not open any of them. In fact, they closed down 2 stores to restructure the costs. In addition, the market is limited, the concentration of stores in one area added extra costs, and it was a mistake.
(Q1) External Influence- How does market environment factors influence your company to implement your strategy? Huge negative impact/ The buying power of our client were going low as they had less money from their family relatives who lives abroad. We do not have direct competitors as other stores target different type of clients. 70% of Goods follow the value for money philosophy whereas the other 30% tries to target the high income earners.	The economic crisis had huge negative impact…. Exchange rate fluctuation such as devaluation of LEK damaged our suppliers finance. They increased the prices but we did not pass to the consumer the all percentage increase. This damaged our margins. Still they do not have a direct competitor, which targets the low-income earners.
<u>Internal Influence:</u> **What type of strategies do you use as competitive tool and what kind of policies do you follow to implement them?** We target low-income earners. We also target the VIP clients like companies etc **Operational Efficiency** – there is lack of coordination within the administration. Marketing, Buying, finance Department were not coordinating their activities during the expansion plan. The example of Marketing Activity with DJ Tiesto demonstrates that. **Economic of Scale Concept** – we used this concept for our clients.	Other chains are targeting the high end up market. Even the new competitor Mercator which targets the low-income earners has 80% same product as Euromax but they have more expensive prices. In addition, the new competitor has only one store. **Operational Efficiency** – the staff departments are not coordinating their activities. There is no brainstorming between the department for new marketing activities or expansion plan. They used prices 5% discount for clients but they did not reduce the prices of products that are near of their expired date. They do not use “Buy on Get one Free” offers.

<u>Managerial Implementation Policies:</u>	
CEO centralised all the decision making process. Starting with expenses, paying procedures and so on. He had to coordinate the work of the all departments and resolve all problems. This was difficult to manage and this was part of his mistake to implement his strategy. In a department of 8 he made redundant 2, and the other 2 left because they were not secure. The other 4 that stayed were not motivated as their wage rate was reduced and they had to do the extra job, in this case double working hour. Even for the new staff they still need extra money to spend for training and it is going to take minimum 1 years until they are fully productive.	As the company was struggling in difficult times, the CEO wanted to give a clear signal towards staff that is time to restructure everything. He concentrated all the decision making process to make sure that the costs were going down and there were no funding evasion. Even though the CEO was pushing hard his employees to reduce the costs and make redundant anyone that was not needed, created unsecured environment and de-motivated environment for low positioned staff members.
Middle Manager Role – is very limited. They just follow the CEO decision. They do not have any new initiative. The only thing that they did is just reducing the prices during the season. **Suggestions:** Full coordination within the department. Coordination also with other departments. If there is coordination, there is no job-repetition and more motivate staff. We used to have Internal Audit Department but not any more. For instance only for managing fund we had 4 different person, and we did not have regular payment method for suppliers. Therefore, there is needed to have more responsible person, which coordinates the payment procedures.	The middle manager role was limited and the CEO made all decisions. According to A9 the middle managers are in more direct contact with clients, staff, suppliers and normally they need to be more important. More responsibilities should be given to them to fully implement the strategy. The company is struggling at the moment and they are following cost policies in all departments. They are also adding extra liquidity to make the payments for suppliers. **Coordination** element is the key for implementing as strategy.